REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

KENYATTA INTERNATIONAL CONVENTION CENTRE

FOR THE YEAR ENDED 30 JUNE, 2023

HARAMBEE

KICC

The Kenyatta International Convention Centre

Africa's Premier Meeting Venue

THE KENYATTA INTERNATIONAL CONVENTION CENTER

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30TH JUNE 2023

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

1. KEY ENTITY INFORMATION & MANAGEMENT

Background information

The Corporation was established under the Tourism Act of 2011 that came into operation on 1st September 2012.

Principal Activities

The principal activities of the Corporation are to:

a. Organize and host meetings and provide incentives for conferences and exhibitions at the Convention Centre;
b. Develop and implement the national meetings, incentives for conferences and exhibitions strategy, in collaboration with the Tourism Board upon consultation with the relevant stakeholders;
c. Market the Convention Centre, in collaboration with the Tourism Board; and
d. Perform any other functions that are ancillary to the object and purpose for which the Convention Centre is established.

Corporate Headquarters:	Kenyatta International Convention Centre, P.O. Box 30746 - 00100 KICC Building Harambee Avenue Nairobi, KENYA
Corporate Contacts:	Telephone: (254)-20-2247277, 3620000 Fax: (254)-20-310223 E-mail: info@kicc.co.ke. Website: www.kicc.co.ke
Corporate Bankers:	Kenya Commercial Bank KICC Branch, Harambee Avenue P.O. Box 46950-00100 City Square 00200 Nairobi, Kenya Co-operative Bank of Kenya City Hall Branch P.O Box 44805-00100 Nairobi Kenya

Independent Auditors:	Auditor General Office of the Auditor General (OAG) Anniversary Towers, University Way P.O. Box 30084 GPO 00100 Nairobi, Kenya
Principal legal advisor:	The Attorney General, State law Office & Department of Justice P.O BOX 40112 City Square 00200 Harambee Avenue Nairobi, Kenya

2. THE BOARD OF DIRECTORS

	Hon Adelina Mwau, OGW.	Chairperson	▪ Masters in Development Studies ▪ Diploma in Adult Education ▪ Immediate former Deputy Governor, Makueni County ▪ Over 40 years in private and public service
	Patricia Ondeng'	Ag. Chief Executive Officer/Secretary to the Board	▪ Master of Arts in Communication Corporate & Development Communication ▪ Bachelor's in Business and Office Management ▪ Certified International Public Relations ▪ Member PRSK ▪ Certified Professional Mediator ▪ Trained QMS Auditor ▪ Strategic Leadership Development Program ▪ Over 25 years working experience in Tourism industry in Communication and Marketing.
	Angella Mueni	Independent Director	▪ Bachelor of Science in Statistics ▪ Diploma in Front office Operations and Management ▪ Former Secretary to Board, Machakos County ▪ Over 10 years work experience in administration
	Catherine Ntinyari Kubania	Independent Director	▪ Bachelor of procurement and Supply chain management. ▪ Higher Diploma in Business Management and Administration. ▪ Diploma in international Business Communacation. ▪ Certifacate in public Relations. ▪ Under-graduate,Bachelor of science; Environmental Studies. ▪ Over 15 yrs Experience in procurement,Sales & Marketing,Business Management & Administration. ▪ 8 yrs Experience in Hospitality and Event Orgernising. ▪ Founder-Green Circle Foundation (Climate change and Environmental Conservation Advocacy) ▪ Current Occupation; Climate Justice Advocacy.

	Mgeni Mboto Hassan	Independent Director	▪ Bachelors in Development Studies and Economics ▪ Diploma in Mass Communication and Media Relations
	Abdullahi Omar Borai	Independent Director	▪ MBA Business Administration Marketing (Management) ▪ Bachelor of Arts Degree in Business Administration ▪ Advanced Diploma in Business studies
	Solomon Mugwe	Independent Director	• MBA in Strategic Management • CPA(K) • Member ICPAK • Over 35 years in senior management in the hospitality industry and private security services sector. • Over 25 years boardroom experience in the private sector
	John Chirchir	Chief Executive Officer - KTB	▪
	Ms. Winnie Katanu Mwalimu	Representative Principal Secretary, National Treasury	▪ MSc Economics ▪ BA (Hons) ▪ Member ESK ▪ Over 20 years' experience in Treasury/Financial Management, Procurement, Budgeting and Research. ▪ YOB 1971
	Bernard Kahuthia	Representative Principal Secretary – State Department for Tourism	▪ International School of Tourism Sciences, Post Graduate Diploma in Specialization in Tourism ▪ Kenya Institute of Administration – Certificate in French Language ▪ Moi University, Nairobi Campus ▪ University of Nairobi –Bachelor of Arts ▪ Degree in Geography and Political Science

3. BOARD COMMITTEES

During the year under review, the board was not fully constituted and therefore, there were no board committees.

4. SENIOR MANAGEMENT TEAM

	Patricia Ondeng'	Ag. Chief Executive Officer	▪ Master of Arts in Communication Corporate & Development Communication ▪ Bachelor's in Business and Office Management ▪ Certified International Public Relations ▪ Member PRSK ▪ Certified Professional Mediator ▪ Trained QMS Auditor ▪ Strategic Leadership Development Program ▪ Over 25 years working experience in Tourism industry in Communication and Marketing.
	Mr. Geoffrey Thande	Director-Business Development	▪ MBA-International Business. ▪ BA-Economics. ▪ Over 17 Years' experience in Marketing, Strategy, Stakeholder Management, Product Development, Competitive Analysis and Customer Service ▪ YOB 1977
	Gomeri Kombo	Director-Operations	▪ BA Hospitality Management ▪ Diploma in hotel management (Switzerland) ▪ Over 20 years' experience in hospitality industry ▪ YOB 1970
	CS Janefrances Mutisya	Corporation Secretary-Director Legal Services	▪ ▪ LLM – Corporate Governance. ▪ LLB. ▪ Post Graduate Diploma (KSL). ▪ CPS (K). ▪ Proficiency Certificate in German. ▪ Accredited Governance and Legal Auditor. ▪ Member, ICS: LSK ▪ Over 20 years' experience in Legal practice and Corporate Law/Practice. ▪ YOB 1974.
	Hashim Hamed	Director-Corporate Planning	▪ MBA Strategic Management ▪ Bachelor of Commerce (Finance) ▪ Diploma (French) ▪ Over 11 years' experience in Marketing and Strategy ▪ YOB 1983

	CPA, CS James Mwaura	Director - Corporate Services	▪ MBA Finance ▪ BBA (Accounting and Finance) ▪ LLB ▪ CPA (K) ▪ CPS (K) ▪ AKIB Over 19 years' experience in Finance, Accounting, Banking, Administration & Corporate Governance in public and private sector

5. CHAIRPERSON'S STATEMENT

On behalf of the KICC Board of Directors, I am pleased to share with you the financial year 2022-2023 annual report and financial statement for the year ending 30 June, 2023. I joined the KICC family recently and I must admit that I am thrilled to be part of theis family and more so honoured to be the chairperson of the Board of Directors.

I am glad to join the MICE tourism industry when the tourism sector is on a positive trajectory and its performance is steadily increasing after the set-back the industry experienced following the effects of COVID 19 Pandemic. It is indeed satisfying to note that there has been significant growth in the Industry with the Meetings, Incentives, Conferences and Exhibitions (MICE) Sector contributing 8.8% to Kenya's Gross Domestic Product (GDP) and generating approximately Kshs 1.05 billion in revenue as per the Kenya National Bureau of Statistics report of 2022.

The Global MICE market was also valued at Kshs 876.42 billion and is expected to have a compound annual growth rate of 7.5% from 2023 to 2024.

As a Corporation we recorded an increase of 36% in revenue during the financial year 2022-2023 from Kshs. 669,533,884.00 to Kshs. 909,877,688.00, and Kshs 423,480,684, form other incomes which constitute;

Casual Parking 3,482,400
Tower viewing 19,718,284
Other sources 280,000
GoK grant-Recurrent 400,000,000

KICC will continue to build on its impressive performance this year by executing more innovative business strategies.

The Centre will further develop and implement Corporate strategies geared towards growing the Convention Centre's MICE business. To achieve this, the Corporation with the support of His Excellency President William Ruto is undertaking major refurbishment of some of the conference facilities to modernize them, expand their functionalities as well as their aesthetic value.

On environmental sustainability, the Corporation planted 500 trees at Orange Primary School and Kisumu Convention Centre in Kisumu. This is also in adhering to the presidential directive that aims for 30% forest cover by planting 15 billion trees by 2032.

Finally, I express my gratitude to all the Board Members, the entire KICC fraternity, and the stakeholders for their overwhelming support and request for the same in the near future.

Thank you.

……………………………………

Hon. Adelina Mwau, OGW
Chairperson of the Board of Directors
Kenyatta International Convention Centre

6. STATEMENT FROM THE CHIEF EXECUTIVE OFFICER

The financial year had a tremendous growth in the meetings industry post COVID 19. The sector had full resumption of face to face meetings. Recent 2022 Kenya National Bureau of Statistics (KNBS) report on performance of the sector has shown that Meetings, Incentives, Conferences and Exhibitions (MICE) industry in Kenya is recovering faster than the leisure sector Post-Covid 19.

The Corporation, in achieving its core mandate of promoting and marketing the destination and hosting meetings, conferences and Exhibitions, employed several marketing strategies to position the destination as preferred for conference tourism in the region.

KICC led several industry players from the private sector to market the Kenya in various international marketing shows like Meetings Africa, IMEX Germany among others. At the shows, several leads were identified and are being follow up for business closure.

The Centre further, in collaboration with local associations and organizations placed several bids to host international conferences and we are glad to announce that the destination won two bids. The International Association of Science Parks 2024 and World Federation of the Deaf International Conference in 2025.

On local marketing, the Corporation revived County MICE marketing and awareness creation dubbed 'MICE MASHINANI. The initiative is aimed at exploring the potential Kenya has on MICE. The product mapping has been done and activities are scheduled to begin in April 2024

The Corporation also undertook stakeholder management initiatives aimed at rebuilding KICC internal and external stakeholder relations. The Corporation undertook these deliberate steps to engage KICC stakeholders in a bid to improve relationship as well as form alliances and partnerships with the external stakeholders for MICE growth. Internally the Corporation engaged with staff to identify critical areas of improvement with a view of improving staff morale and work environment

Business Performance

During the year under review, The Corporation achieved a turnover of Kshs. 909.9 from sales and Kshs 435,480,684, form other incomes which constitute:

Casual Parking 3,482,400
Tower viewing 19,718,284
Other sources 280,000
GoK grant-Recurrent 400,000,000

This is in comparison to Kshs 669.5Million from the previous financial year posting a profit Kshs. 82.2 Million after tax and achieved a Profit Before Tax of Kshs. 117.4 million.

During the period the Corporation continued to employ stringent measures in its operations as guided by the government directives.
KICC however maximized its revenue on other revenue streams like rent and leased parking. There has been remarkable improvement in parking revenue collections (from approximately Kshs 46,000 to Kshs 86,000 weekly). Tower viewing revenue has also improved.

Conference revenue went up 60% to Kshs. 181.3Million, leased parking registered an increase of 3% increase to Kshs 193.5 million, Tower viewing was up by 73% from Kshs. 5.3 Million, and rent income was up by 4% to Kshs. 310.9 Million.

Modernization and upgrade of outdoor meeting room

During the period the Corporation undertook minor Centre facelift. The Corporation further mobilized for funds for the upgrade of the Centre to make it modern and competitive in the region. The major refurbishment of the facilities are starting in the new financial year.

Employee Productivity

The Corporation has continued to recognize the need for staff training and development. During the year, the Corporation carried out staff training and sensitization activities to increase capacity and performance.

Finally, I would like to thank all the KICC staff for their immersed contribution, handwork, dedication and focus on driving the Corporation's core mandate.

Patricia Ondeng'

Ag. Chief Executive Officer

7. CORPORATE GOVERNANCE STATEMENT

Corporate Governance relates to internal means by which Corporations are directed, controlled and held to account. This is done with a view to ensuring that, corporations attain their long-term value of shareholders while taking into consideration the interests of other stakeholders. The Governance structures of Corporations stipulates rules and procedures of certain organizations and at the same time identifies the manner of distribution of rights amongst different stakeholders such as Board of Directors, Managers, Shareholders, Creditors and Auditors. The Board of Directors of Kenyatta International Convention Centre is responsible for the Governance of the Corporation. While discharging its functions, it is accountable to shareholders and stakeholders in ensuring that it complies with all set regulations and business ethics. Similarly, the Board adheres to the generally accepted Corporate Governance procedures as stipulated in the existing Governances' Codes and also embraces the internationally accepted principles and best practices of Corporate Governance.

The Board of Directors

The Board of Directors Comprises of nine (9) Directors, six of which are independent non-executive Directors including the Chairman.

The Board of Directors directs the Corporation generally. Its basic role in directing the Corporation entails the formulation of the Corporation's Strategic Objectives, Policy Making, Supervision of Executive Management and Accountability to Stakeholders. The Directors entrench a wealth of experience, relevant expertise and knowledge, while deliberating on major issues pertaining to the organization. Except for direction and guidance in general Policy, the Board of Directors delegates the authority of day to day business operations of the organization to the Management through the Chief Executive Officer.

In discharging its onerous function, the Board of Directors is assisted by a Corporation Secretary who attends all Board meetings except the Audit Committee Meetings. The Corporation Secretary advises the Board in respect of Corporate Governance issues as well as legal and regulatory requirements pertaining to the Corporation.

Board Meetings

The Board holds regular meetings as provided by the Corporation's Board Calendar and as stipulated under the relevant statutes. Special meetings may however be convened when the Corporation deems it necessary to do so.

During the year under review, the Board held 3 special Board meeting and. In light of the fact that, KICC IS a State Corporation, the Inspector General of State Corporations is invited to attend the Corporation's Board meetings both Committees and Full Board Meetings as an ex-official. The Inspector General exercises an oversight and advisory role in such meetings in accordance with the State Corporations Act.

The Members, and membership to various Committees is as follows:-

No	Board Member	Scheduled Meetings	Special Meetings	Total
1	Hon. Adelina Mwau, OGW			
2	Angelline Mueni Mulinge			
3	Solomon Mugwe			
4	John Chirchir			
5	Abdullahi Omar Borai			
6	Bernard Kahuthia-Rep PS Tourism			
7	Winnie Mwalimu-Rep PS Treasury			
8	George Ombua			
9	Catherine Ntinyari			
10	Mgeni Mboto Hassan			

Committees of the Board

During the year under review, the board was not fully constituted and therefore did not have the various committees prescribed under the state corporations Act, Tourism Act and the Mwongozo code of regulation.

Succession Plan

The Board members of the Convention Centre are appointed at different times such that, the respective expiry dates of their terms of office shall fall at different times.

Board Remuneration

The aggregate amount paid to Directors in terms of sitting allowances for services rendered during financial year 2022/2023 are disclosed in the Financial Statements under Note 27 (ii). Non-Executive Directors are paid sitting allowances for any meeting attended.

Risk Management and Internal Controls

The Corporation has defined procedures and financial controls to ensure its accounting information is complete and accurate. These include systems for obtaining approvals for all transactions and strict adherence to laws and regulations that have significant financial implications. The Board takes into consideration the results of work carried out to Audit and review the activities of the Corporation with a view to ascertaining the effectiveness of internal control systems. The Board also considers the Management accounts for each year, reports from each Board Committee, annual budgetary proposals, and strategic opportunities for the Corporation.

Information and Board Developments

The Board shall be supplied with detailed Board Papers and reports on business to be conducted at each meeting in advance. All Directors shall have access, advice and services of the Corporation Secretary. Where necessary the Directors may access external legal advice.

To update their skills and expertise in discharging board functions, directors are required to receive induction training on appointment. In addition, they are also required to attend trainings suited to their needs and expertise required to perform their duties regularly.

8. MANAGEMENT DISCUSSION AND ANALYSIS

SECTION A

KICC's operational and financial performance

Performance of KICC's Core mandates

i. To facilitate the Modernization and Expansion of KICC; the Corporation is carrying out a review of its modernization master plan for the KICC facility which outlines projects to be implemented. During the period under review, KICC is undertaking a refurbishment of the Tsavo Ball room, repair of Amphi Theatre, ICT infrastructure and rehabilitation of water fountain

i. MICE destination Marketing; In terms of participating in international exhibitions the Corporation participated in IMEX Frankfurt in May 2023, and Meetings Africa in Johannesburg in February 2022.

i. Some of the successful bids undertaken are: -ICASA,24th UNWTO Conference, International women engineers and Scientists 2023, SESTECH Technology Conference and Expo,36th International Society for Music Education World conference 2024, INTERCOL congress 2025, IAS on HIV Science in 2023 and African Development Bank AGM.

Revenues

The Corporation's main revenue streams include; conference/exhibitions & events, rental income, parking fees, tower viewing and third-party revenues. In total, the Corporation's revenue for the year was Kshs. 933.4 Million this included, against a target of Kshs. 1,000.6 Million leading to unfavourable variance of Kshs. 67.3 Million. In comparison with the same financial year 2021/2022 the corporation reported revenue of Ksh. 676.6 Million.

During the year the Centre did not achieve its revenue targets on core mandates.

Expenses

The Corporation endeavored to spend within the budget limits. Total expenditure for the Year was Kshs.648.7 Million inclusive of General Provision for bad debts Kshs. 29.5 Million, depreciation and amortization amounting to Kshs. 58.09 Million. The total budget for the Year was Kshs.972.6 Million. There was favorable variance of Kshs.126.08 Million due to cost cutting measures and cost rationalization.

In comparison to last year, the Corporation total operating expenses for the Year ended 30th June 2022 was Kshs.564.2 Million.

Profit/Loss for the Period

Reported profit for the year (after depreciation but before tax at 30%) was Ksh. 82,2 Million.

SECTION B

KICCs compliance with statutory requirements

INTERNATIONAL STANDARDS

Our commitment to quality in our services and processes remain steadfast. Complying to the requirements of ISO 9001:2008 ensures that the Corporation not only retains its status as an ISO 9001:2008 certified institution but that continuous improvement, research and development and on-going review of processes is systematically done to ensure that our processes and strategies remain current and relevant in the ever-dynamic business environment. In the long run there is positive impact on revenue, quality, costs, and customer satisfaction.

INFORMATION AND COMMUNICATIONS TECHNOLOGY

The ICT Department continued to collaborate with our business systems users in order to identify and exploit opportunities for utilizing technology solutions to solve business problems. Among the projects completed in the period under review include: Enterprise Resource Planning (ERP) integrating Finance, Stores and Marketing departments, installation of the internal audit software, and Data Storage offsite backup. ERP will be finalised through by legal department preparing and signing the contractual agreement. Data Storage offsite backup was done and is currently under support for the next 3years. The Corporation is also using the Integrated Financial Management Information System (IFMIS) for its procurement functions as per the Government requirement to all Government agencies.

SECTION C

Key projects and investment decisions KICC is planning/implementing

The outlook for the Meetings, Incentives, Conferences and Exhibitions (MICE) Industry remains robust and resilient. M.I.C.E is the fastest growing subsector of tourism. KICC has the right strategy, brand, resilience and people to take it to the next phase of growth. Some of the projects under or due for implementation as per the strategic plan 2018/2022 are:

- Refurbishment of Tsavo Ballroom and Amphi Theatre
- Rehabilitation of water fountain
- Upgrade of ICT infrastructure
- Improvement of meeting halls and facilities

SECTION D

Major risks facing KICC

The Corporation will continue to recognize risk Management as an integral part of the internal control systems. We will therefore continue to logically and systematically engage in the process of establishing, identifying, analysing, evaluating and communicating risks associated with any activities, functions or processes in a way that enables the Corporation to minimize losses and maximize opportunities while getting value for money committed.

Operational Risk

This is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation as well as lead to financial loss.

The controls that the Corporation has put in place to minimize the potential risks include:

a) Effective duty segregation,
b) Staff sensitization, training and capacity building
c) Definition of authorization levels,
d) Periodic risk assessment,
e) Compliance and conformity with laid down policies and procedures and Acts governing operations
f) Use of internal audit; and
g) Adherence to systems of internal controls.

Credit and Liquidity risks

The corporation continues to put measures in place to minimize risk of non-recovery of debts owed by defunct Government Ministries and Departments that were merged.

In compliance with accounting principles, the management will continue to recognise provisions for bad and doubtful debts in its financial statements.

The corporation cash and cash equivalents as at the end of the Year was Kshs.128.1 Million held in our various bank accounts. Trade and other receivables balance were Kshs. 954.03 Million while trade and other payables balance were Kshs.751.6 Million

Legal risks

Due to 14 pending litigations/cases in court which are at various stages of litigation, the corporation is likely to incur costs with regard to legal costs, penalties and interests. This is purely dependent on the outcome i.e. whether it is unfavourable.

SECTION E

Material arrears in statutory/financial obligations

Trade and Other payables	153,805,053
Provisions for other pending bills	83,908,475
VAT Liability	31,296,960
Provisions for Upgrade Of ERP system	30,000,000
Provisions for gratuity	15,784,073
Provisions Salary Review	220,000,000
Provision for legal contingency	132,780,000
Provision for Telephone allowances	17,220,000
Accrued expenses	14,375,976
Corporation tax	35,213,374
	734,383,911

SECTION F

KICCs financial improbity and serious governance issues

Corporate Governance is the process by which Corporations are directed, controlled and held to account. The Board of Directors are responsible for the long-term strategic goals of the Corporation while being accountable to the shareholders for legal compliance and maintenance of the highest Corporate Governance and business ethics.

An independent Board manages the business of the Corporation. The Board is keen on reviewing the overall framework of the internal controls and the assessment of Management process and the adoption of the appropriate codes of ethics. It is also responsible for ensuring that the Corporation complies with the law and highest standards of Corporate and business ethics. The Board currently comprises members drawn from public and private sectors.

The Corporation is committed to fighting corruption and other social vices in the work place. The corporation has adopted the government's zero tolerance approach to corruption and it has put in place mechanisms to control corruption. In this regard a corruption prevention committee has already been put in place and integrity assurance officers trained.

9. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 83 of the Public Finance Management (PFM) Act, 2012, Section 14 of the State Corporation's Act requires the Directors to prepare financial statements which give a true and fair view of the state of affairs of the Corporation at the end of the financial year and the operating results of the corporation for the year. As the Directors of KICC we have ensured that the corporation keeps proper accounting records which disclose with reasonable accuracy the financial position of the corporation and of the results of its operations. We are also responsible for safeguarding the assets of the Corporation and preparation of the corporation's financial statements, which give a true and fair view of the state of affairs of the Corporation as at the end of the financial year 2022-2023 and of the result of its operations for the year then ended.

Our 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 entity;

(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 Corporation;

(v) Selecting and applying appropriate accounting policies; and

(vi) Making accounting estimates that are reasonable in the circumstances.

As Directors of KICC we accept responsibility for the Corporation'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 Section 83 of the PFM Act, 2012 and the State Corporations Act. We the Directors are of the opinion that KICC's financial statements give a true and fair view of the Corporation's transactions during the financial year ended 30th June, 2022, and of the Corporation's financial position as at that date. We further confirm the completeness of the accounting records maintained for the Corporation, which have been relied upon in the preparation of the financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

The Kenyatta International Convention Centre's Financial Statements have been prepared in accordance with Section 83 of the PFM Act and were approved on 30 August, 2023.

....	....	....
Patricia Ondeng'	CPA, CS James Mwaura	Hon. Adelina Mwau, *OGW*
Ag. Chief Executive officer	Director Corporate Service	Chairperson
	ICPAK Member No. 14575	Board of Directors

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYATTA INTERNATIONAL CONVENTION CENTRE FOR THE YEAR ENDED 30 JUNE, 2023

PREAMBLE

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

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

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenyatta International Convention Centre set out on pages 1 to 29, which comprise of the statement of financial position as at 30 June, 2023, and the statement of profit or loss and other comprehensive income, the statement of changes in equity, the statement of cash flows, statement of comparison of budget and actual amounts for the year 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 Kenyatta International Convention Centre as at 30 June, 2023, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Tourism Act, 2011 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracies in the Comparative Figures

The statement of financial position reflects comparative amounts which differs with the amounts reflected in the prior year audited statement of financial position as shown below:

Item	Financial Statements Comparative Amount (Kshs.)	Prior Year Audited Financial Statements Comparative Amount (Kshs.)	Variance (Kshs.)
Trade Receivables	820,136,325	903,242,704	(83,106,379)
Retained Earnings	55,330,340	59,249,255	(3,918,915)
Trade and Other Payables	999,485,847	1,077,132,879	(77,647,032)
Tax Payable	156,299,714	157,979,249	(1,679,535)

In the circumstances, the accuracy of comparative amounts could not be confirmed.

2. Unsupported Property, Plant and Equipment

As previously reported, the statement of financial position reflects property, plant and equipment totalling Kshs.4,013,298,206. The amount includes freehold land amounting to Kshs.2,296,000,000 as disclosed in Note 15 to the financial statements. As previously reported, the freehold land amount excludes land commonly referred to as COMESA parking area and the courtyard on which the first Kenya President's monument stands.

Further, a Restaurant has encroached on the land which has no title and is disputed between the Centre and the County Government of Nairobi.

In the circumstances, the accuracy and ownership of the freehold land amounting to Kshs.2,296,000,000 could not be confirmed.

3. Unsupported Intangible Asset

The statement of financial position reflects intangible assets totalling Kshs.30,843,892 as further disclosed in Note 16 to the financial statements. The amount includes Enterprise Resource Planning (ERP) upgrade amounting to Kshs.30,000,000 which was not supported.

In the circumstances, the accuracy of intangible asset totalling Kshs.30,843,892 could not be confirmed.

4. Long Outstanding Staff Car Loans

The statement of financial position reflects staff receivables due after one (1) year totalling Kshs.5,957,682 in respect of gross car loans and salary advance as disclosed in Note 19(c) to the financial statements. The amount includes car loans due from former employees amounting to Kshs.3,616,831 which have been outstanding for more than four (4) years.

Further, car loans and salary advances amounting to Kshs.665,240 have not been disclosed.

In the circumstances, the accuracy and recoverability of car loans and salary advance totalling Kshs.5,957,682 could not be confirmed.

The audit was conducted in accordance with International Financial Reporting Standards and Audit Institutions (ISSAIs). I am independent of the Kenyatta International Convention Centre 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

Long Outstanding Trade and Other Payables

The statement of financial position reflects trade and other payables totalling Kshs.750,371,568. The amount includes trade payables amounting to Kshs.153,805,053 as disclosed in Note 25 to the financial statements. The trade payables amount includes Kshs.103,484,409 which has been outstanding for over eleven years.

My opinion is not modified in respect of this matter.

Key Audit Matters

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

Other Matter

Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance which have remained unresolved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that, nothing 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

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the review so as to obtain limited assurance as to 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 procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis of Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit so as to obtain limited assurance as to whether effective processes and systems of internal controls, risk management and 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.

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

In preparing the financial statements, Management is responsible for assessing the Centre's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of intention to terminate the Centre 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 are responsible for overseeing the Centre's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal controls in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal controls would not necessarily disclose all matters in the internal controls 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 controls 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 controls 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 controls.

- 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 Management's use of the applicable 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 Centre's ability to continue to sustain its services. 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 Centre to cease to continue to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Centre to express an opinion on the financial statements.

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

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

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

FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

14 May, 2024

11. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30Th JUNE 2023

DESCRIPTION	NOTE	2022-2023 30th June Kshs	2021-2022 30th June Kshs
REVENUES			
Revenues	6	909,877,688	669,533,884
Cost of Sales	7	(487,624,521)	(76,802,027)
Gross Profit		422,253,167	592,731,857
Other Income			
Other Income	10	435,480,684	7,022,532
Total Revenues		857,733,851	599,754,389
OPERATING EXPENSES			
Administration Costs	12	1,541,052,904	503,323,479
Selling and Distribution Costs	13	7,022,617	1,821,839
Depreciation and amortization	11	67,217,849	59,064,535
Total Operating Expenses		1,615,293,370	564,209,853
Operating profit		(757,559,519)	35,544,535
Profit/ Loss before Taxation		(757,559,519)	35,544,535
Income Tax @30%	14	227,267,856	(10,663,361)
Profit/ Loss after Taxation		(530,291,663)	24,881,175

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The Kenyatta International Convention Centre's Financial Statements have been approved on, 30 August, 2023.

………………………………	………………………………	………………………………
Patricia Ondeng'	CPA, CS James Mwaura	Hon. Adelina Mwau, OGW
Ag. Chief Executive officer	Director Corporate Service	Chairperson
	ICPAK Member No. 14575	Board of Directors

12. STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2023

	Note	2022-2023	2021-2022
		30th June 2023	30th June 2022
Non-Current Assets		Kshs	Kshs
Property, plant and equipment	15	4,013,298,206	5,036,384,170
Intangible assets	16	30,843,892	12,312,683
Staff receivables due after one year	19c	5,957,682	7,478,900
Total Non-Current Assets		4,050,099,780	5,056,175,753
Current Assets			
Inventories	17	7,173,776	3,835,513
Trade and other receivables	18	946,328,252	820,136,325
Cash and bank balances	21	128,138,697	401,468,235
Staff Imprests	19c	2,049,704	384,400
Total Current Assets		1,083,690,429	1,225,824,473
TOTAL ASSETS		5,133,790,208	6,282,000,226
EQUITY AND LIABILITIES			
Capital and Reserves			
Capital Fund	22	3,933,446,000	3,933,446,000
Retained earnings	24	(616,497,543)	55,330,340
Revaluation Reserve	23	1,137,438,325	1,137,438,325
Capital and Reserves		4,454,386,782	5,126,214,664
Current Liabilities			
Trade and other payables	25	750,371,568	999,485,847
Tax Payable	20	(70,968,141)	156,299,714
Total Current Liabilities		679,403,426	1,155,785,561
TOTAL EQUITY AND LIABILITIES		5,133,790,208	6,282,000,226

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The Kenyatta International Convention Centre's Financial Statements have been approved on, 30 August, 2023

Patricia Ondeng'	PA, CS James Mwaura	Hon. Adelina Mwau, OGW
Ag. Chief Executive Officer	Director Corporate Services	Chairperson,
	ICPAK Member No 14575	Board of Directors

STATEMENT OF CHANGES IN EQUITY & RESERVES FOR THE YEAR ENDED 30TH JUNE 2023

	Note	Shareholders' Equity	Revenue Reserves/Retained Earnings	Revaluation Reserve	Revenue Reserves Restated	Total
		Kshs	Kshs	Kshs	Kshs	Kshs
At 1 July, 2019	31	3,933,446,000	(35,840,738)	1,137,438,325	3,897,605,262	5,035,043,587
Net profit for the Year ended 30th June 2020		-	37,391,652	-	37,391,652	37,391,652
Prior year adjustment-Work In Progress		-			-	-
For the period ending 30th June, 2020	31	3,933,446,000	1,550,914	1,137,438,325	3,934,996,914	5,072,435,239
Net profit for the Quarter ending 30th June 2021		-	28,898,251	-	28,898,251	28,898,251
Prior year adjusments				-	-	
For the period ending 30th June, 2021	31	3,933,446,000	30,449,165	1,137,438,325	3,973,289,351	5,101,333,490
Net profit for the Quarter ended 30th June 2022		-	24,881,175	-	24,881,175	24,881,175
Prior year adjusments				-	-	
For the period ended 30th June, 2022	31	3,933,446,000	55,330,340	1,137,438,325	3,979,944,452	5,107,988,591
Net profit for the year ended 30th June 2023		-	(530,291,663)	-	(530,291,663)	(530,291,663)
Prior year adjusments				-	-	
For the period ended 30th June, 2023	31	3,933,446,000	(474,961,324)	1,137,438,325	3,449,652,789	4,577,696,927

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The Kenyatta International Convention Centre's Financial Statements have been approved on, 30 August, 2023

Patricia Ondeng'	CPA, CS James Mwaura	Hon. Adelina Mwau, OGW
Ag. Chief Executive Officer	Director Corporate Services	Chairperson,
	ICPAK Member No 14575	Board of Directors

13. STATEMENT OF CASH FLOWS AS AT 30TH JUNE 2023

	Note	As at 31st June 2023 Kshs	As at 30th June 2022 Kshs
OPERATING ACTIVITIES			
Cash generated from/ (used in) operations	26	(213,389,358)	19,167,981
Tax paid			
Net cash generated from/(used in) operating activities		(213,389,358)	19,167,981
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	15	(59,940,180)	(48,596,261)
Net cash generated from/(used in) investing activities		(59,940,180)	(48,596,261)
FINANCING ACTIVITIES			
Interest income			
Net cash generated from/(used in) financing activities			
INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		(273,329,538)	(29,428,280)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		401,468,235	430,896,515
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		128,138,697	401,468,235

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The Kenyatta International Convention Centre's Financial Statements have been approved on, 30 August, 2023

Patricia Ondeng'	CPA, CS James Mwaura	Hon. Adelina Mwau, OGW
Ag. Chief Executive Officer	Director Corporate Services	Chairperson
	ICPAK Member No 14575	Board of Directors

14. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS AS AT 30TH JUNE 2023

DESCRIPTION	Actuals 2022-2023(A)	2022-2023 Budget (B)	VARIANCE C(A-B)	% Variance	REMARKS F - (FAVORABLE) U(UN-FAVORABLE)	WHOLE YEAR BUDGET	NOTES TO EXPLANATION OF VARIANCES
	KSHS	KSHS	KSHS	%		KSHS	
Rent Revenue	310,896,979	253,670,554	57,226,425	23%	F	253,670,554	a
Leased Parking Revenue	193,541,720	196,425,000	(2,883,280)	-1%	U	196,425,000	
Conference Revenue	181,333,671	234,695,845	(53,362,174)	-23%	U	234,695,845	
Catering	129,795,813	148,960,461	(19,164,649)	-13%	U	148,960,461	b
Equipment	94,309,504	149,896,147	(55,586,642)	-37%	U	149,896,147	
Casual Parking Revenue	3,482,400	3,000,000	482,400	16%	F	3,000,000	
Tower Viewing Revenue	19,718,284	12,000,000	7,718,284	64%	F	12,000,000	c
Other sources of revenue	280,000	2,000,000	(1,720,000)	-86%	U	2,000,000	
Tourism Fund-Recurrent grant	12,000,000	-	12,000,000	0%			
GoK Recurrent grant	400,000,000	-	400,000,000	0%			
Total Revenue	1,345,358,372	1,000,648,007	344,710,365			1,000,648,007	
ADMINISTRATION COSTS							
Electricity	50,316,940	51,600,000	(1,283,060)	-2%	F	51,600,000	d
Water & Conservancy	15,183,444	15,200,000	(16,556)	0%	F	15,200,000	
Postage and Courier	9,450	112,500	(103,050)	-92%	F	112,500	e
Telephone Expenses	1,942,350	3,060,000	(1,117,650)	-37%	F	3,060,000	f
E-Mail & Internet	1,468,540	2,442,000	(973,460)	-40%	U	2,442,000	
Transport Operating Expenses	4,749,408	3,600,000	1,149,408	32%	U	3,600,000	g
Travelling & Accommodation	62,041,234	5,340,000	56,701,234	1062%	U	5,340,000	
Printing, stationery and photocopying	9,759,300	6,000,000	3,759,300	63%	F	6,000,000	h
Staff training expenses	25,416,113	25,000,000	416,113	2%	F	25,000,000	i
Staff welfare & Uniform expenses	32,606,706	28,727,000	3,879,706	14%	F	28,727,000	
Business Promotion Expenses(Entertainment)	2,925,978	750,000	2,175,978	290%	U	750,000	j
General Insurance	15,236,507	15,487,772	(251,265)	-2%		15,487,772	
Bank charges and commissions	1,373,157	1,180,000	193,157	16%	F	1,180,000	k
Membership to professional bodies	499,518	5,004,230	(4,504,712)	-90%	F	5,004,230	l
Consultancy fees	195,947,871	13,268,680	182,679,191	1377%	F	13,268,680	m
Legal fees, Land rates,Licenses & Subscriptions	76,955,480	24,438,912	52,516,568	215%	F	24,438,912	

Repairs and maintenance	374,404,245	34,050,000	340,354,245	1000%		F	34,050,000	n
Board Expenses	3,323,667	25,331,000	(22,007,333)	-87%		F	25,331,000	o
	874,159,908	**260,592,094**	**613,567,814**			-	**260,592,094**	
OTHER OPERATING EXPENSES								
Contracted Services	73,150,359	82,300,000	(9,149,641)	-11%		F	82,300,000	p
Consumable Stores	3,754,411	6,500,000	(2,745,589)	-42%		F	6,500,000	q
Research and development	-	11,500,000	(11,500,000)	-100%		F	11,500,000	
Gift shop	-	-	-	0%		F	-	
Corporate Social Responsibility/Investment	-	1,500,000	(1,500,000)	-100%		F	1,500,000	
	76,904,770	**101,800,000**	**(24,895,230)**			-	**101,800,000**	
STAFF COSTS(PERSONNEL EMOLUMENTS)								
Salaries Wages & Leave Allowance	508,286,094	280,909,912	227,376,182	81%		F	280,909,911	
Medical Insurance	37,544,190	40,000,000	(2,455,810)	-6%		F	40,000,000	
Casual wages	693,077		693,077	0%		U		
Gratuity & Pension	9,328,582	21,613,520	(12,284,938)	-57%		F	21,613,520	
	555,851,943	**342,523,432**	**213,328,511**			-	**342,523,431**	
SELLING & DISTRIBUTION COST								
Third party costs	431,357,782	110,221,975	321,135,807	291%		U	110,221,975	r
MICE & Participation in Exhibition	56,266,739	40,000,000	16,266,739	41%		U	20,000,000	s
Production of Promotion Materials	5,769,648	11,500,000	(5,730,352)	-50%		F	11,500,000	t
Advertising & Publicity	1,252,969	13,600,000	(12,347,031)	-91%		F	13,600,000	
Provision for Depreciation	67,217,849	60,000,000	7,217,849	12%		F	60,000,000	
Provision for Audit fees	2,463,999	600,000	1,863,999	311%		U	-	
Provision for Provision for debts	29,267,884	-	29,267,884	0%			-	
Replacement & Renewal Items	2,404,400	31,800,000	(29,395,600)	-92%		U	31,800,000	
	596,001,270	**267,721,975**	**328,279,295**			-	**247,121,975**	
Total Expenses	2,102,917,891	972,637,501	1,130,280,390			-	952,037,500	
Re-Current surplus	(757,559,519)	28,010,507	- 785,570,026	-2805%		-	48,610,507	

15. EXPLANATION OF THE VARIANCES

a) Rent revenue

The favourable variances during the year was achieved by short term leases and timely billing and collection of revenue during the year.

b) Conference, catering and equipment revenue

During the year corporation did not meet the target for the above revenue due to fact few events were held during the year. This lead to under achievement

c) Casual parking and Tower viewing revenue

During the year there was increased in vehicles parked daily this lead increase in casual parking revenue. Helipad also received a lot visits, this lead to significant increase in revenue.

d) Electricity, Water & Conservancy

Consumption of electricity significantly reduced due to utilization of solar panel installed this led to a favourable variance of Kshs. 8,999,254. Water and conservancy on the other hand had favourable variance of Kshs 16,556 this is due to high sewerage charges.

e) Postage and courier

During the year the corporation opted to use email and internet services for it communication. This led to favourable variance of Kshs. 103,050 against a budget of Kshs. 112,500

f) Telephone expense, E-mail and Internet

During the year telephone expenses decline and there was a favourable variance of Kshs. 1,117,650. Email and internet expenses during year was Kshs. 1,468,540 against a budget of Kshs 2,442,000, there was higher utilization of internet services.

g) Travelling and accommodation.

The travelling accommodation had unfavourable variance of Kshs 56,701,234. This resulted from some of the staff travelling for various trainings during the year.

h) Printing, stationery and photocopying

Since the corporation opted to leasing printing and photocopying services, it resulted to a unfavourable variance of Kshs, 3,629,633 during the year.

i) Staff training expenses and Staff welfare & uniform expenses

During the period staff training was budgeted Kshs. 25,000,000.00 against actual expenditure of Kshs 23,162,393.00 this led to favourable variance Kshs. 1,837,607.00. Staff welfare & uniform expenses had a favourable variance of Kshs. 1,122,445.00.

j) Business promotion expenses (Entertainment)
During the year the corporation held several business promotion meeting this led to an actual expenditure of Kshs 2,925,978 against a budget of Kshs 750,000.00

k) Bank Charges and Commission
The above vote head was budgeted Kshs.1,180,000.00 the actual expenditure was Kshs. 1,373,157.00 this resulted to favourable variance of Kshs. 193,157.00 due to reduced number of bank transactions in and out of our bank accounts.

l) Membership to professional bodies
During the year corporation spent Kshs. 499,518 on subscription to various professional bodies for both staff and corporate. There was a favourable variance of Kshs. 4,504,712.00.

m) Consultancy fees and Legal fees, land rates licenses & subscriptions
In the year under review there was an expenditure of Kshs. 1,064,800.00 on consultancy service this resulted into a favourable variance of Kshs 12,203,880.00. There was favourable variance of Kshs 15,392,918.00 on legal fees, Land rates, Licenses and Subscriptions.

n) Repairs and maintenance
During the year there were no major repairs and maintenance in the corporation this resulted in favourable variance of Kshs 23,057,731.00.

o) Board expenses
During the year there was no board in place this led to an expenditure of Kshs. 3,352,581.00 against a budget of Kshs. 25,331,000.00 during the year. This resulted to favourable variance of Kshs. 21,978,419.00.

p) Contracted services
The above vote head was budgeted Kshs. 82,300,000.00 the actual expenditure was Kshs. 73,150,359.00 this resulted to favourable variance of Kshs. 9,149,641.00.

q) Consumables stores, Research and development, Gift shop and Corporate social responsibility
There was an expenditure of Kshs. 3,754,411.00 against a budget of Kshs. 6,500,000.00 this lead to favourable variance Kshs. 2,745,589.00 on consumables vote heads during the year. There were no expenditure on research and development which had an allocation of Kshs. 11,500,000.00 and Corporate social responsibility which had a budget of Kshs. 1,500,000.00.

r) Third party costs

This are costs directly relating to event/conferencing activities, during the year corporation endeavoured in providing equipment's during conferences and exhibition this led to an actual cost of Kshs. 142,212,550 against a of budget Kshs. 110,221,975. There was favourable variance of Kshs. 31,990,575.00.

s) MICE & Participation in Exhibition and Production of Promotion Materials

There were two international exhibitions and several local exhibition held during the year this led to an expenditure of Kshs. 56,266,739.00 against a budget of Kshs 40,000,000. There was an expenditure of Kshs. 5,769,648.00 on production of promotion materials during the year leading to a favourable variance of Kshs. 5,730,352.00

t) Replacement and renewals

During the year there were no major renewals and replacement this led to an expenditure of Kshs. 2,404,400 against a budget of Kshs. 31,800,000.00.

16. NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

KICC is a State Corporation established under the Tourism Act, 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

a. 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 Corporation's accounting policies.

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

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.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

IAS 19, 'Employee benefits', was amended in June 2012. The impact on the Company will be as follows: to immediately recognize all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset).

17. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13. The amendment is not mandatory for the company until 1 January 2014.

IFRS 12, 'Disclosure of interest in other entities' – includes the disclosure requirements for all forms of interest in other entities, including interest in subsidiaries, associates, joint arrangements, special purpose entities and other off-balance sheet vehicles.

a) Standards, amendments and interpretations to existing standards that are not yet effective and not early adopted by the Corporation.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the company, except the following set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities, IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurements categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the

Standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact.

IFRS 15, 'Revenue recognition' (effective annual periods beginning on or after 1 January 2018 and early adoption is permitted). Final standard issued on 28th May 2014 proposed a five-step approach;

1. Identity contract – new definitions and additional guidance on contract combination and modification.
2. Separate performance obligation – Performance obligation is accounted for separately if it is 'distinct'; a good/ service is distinct if the customer can benefit from the good/ service on its own and it is not highly dependent on or interrelated with other promised goods/ services in the contract.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Determine transaction price – variable consideration based on probability weighted or most likely amount but is constrained up to the amount that is probable of no significant reversal in the future; reflect time value when significant; credit risk as an expense in separate line on face and measured based on IFRS 9/IAS 39;

4. Allocate transaction price – Based on a relative selling price basis; "residual approach" only used when there is performance obligation with stand-alone price which is highly variable or uncertain.

5. Recognize revenue – Model now based on control, but risk and rewards remain an indicator; criteria for satisfied over time introduced.

b) Revenue recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the Corporation 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 Corporation's activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the Corporation's activities as described below.

i) **Revenue from the sale of goods and services** are recognised in the year in which the *entity* delivers services to the customer, the customer has accepted the services and collectability of the related receivables is reasonably assured. The key revenue streams include conference activities, rent income, leased and casual parking, tower viewing and third-party revenue.

ii) **Grants from National Government** are recognised in the year in which the Corporation actually receives such grants and its respective expenditure done.

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

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

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

c) Property, plant and equipment

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

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-evaluation less any subsequent accumulated.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement.

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognised in profit or loss in the income statement.

d) Depreciation and impairment of property, plant and equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the cost of on-going but incomplete works on buildings and other civil works and installations.

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

Class of Asset	
Freehold Land	0.0%
Buildings and civil works	2.5 %
Furniture	12.5 %
Others *(Tools, Fire extinguishers, Laptop chains)*	12.5 %
Carpets	12.5 %
Office equipment	30.0 %
Motor Vehicles	25.0 %
CCTV Cameras	30.0 %
Software's	33.3 %
Plant and Equipment	12.5 %
Communication Equipment	12.5 %

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

e) Depreciation and impairment of property, plant and equipment

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

f) Intangible assets

Intangible assets comprise purchased computer software licences, which are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful life of the intangible assets from the year that they are available for use, usually over three years.

g) Amortisation and impairment of intangible assets

Amortisation is calculated on the straight-line basis over the estimated useful life of computer software of three years.

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

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. In the year under review a 3% general provision has been made on total debtors. Bad debts are written off after all efforts of recovery have been exhausted and write off approved by Public investment committee of parliament..

i) Taxation

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted as at the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

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

j) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

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 corporation or not, less any payments made to the suppliers.

l) Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees from July 1, 2013. The scheme is administered by Jubilee Insurance 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 Act. The company's
Obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per month.

m) Provision for staff leave pay

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

n) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the Corporation 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) Comparative figures

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

p) 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 30th June 2021.

q) Provision for employee entitlement-Staff leave pay

Employee entitlement to annual leave are recognised and paid immediately within the financial year when they accrue.

Certain employees of the Corporation are entitled to service gratuity based on resignation or termination of employment based on 31% of their basic pay for the period of time worked for. The service gratuity is provided for in the financial statements as it accrues to each employee.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

The Corporation makes estimates and assumption concerning the future. The resulting accounting estimates will by definition, seldom equal to related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Income taxes

The Corporation is subject to various income taxes. Significant judgement is required in determining the Corporation's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The group recognizes liabilities or anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially record, such differences will impact the income tax provisions in the period in which such determination is made.

Gratuity scheme obligations

The present value of the gratuity obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for gratuity include the discount rate and future salary increases. Any changes in these assumptions will impact the carrying amount of gratuity obligations.

The Corporation relies on an independent actuary to determine the appropriate discount rate at the end of the year. This is the interest rate that should be used to determine the present value of estimate future cash outflows expected to be required to settle the pension obligations.

4. FINANCIAL RISK MANAGEMENT

The corporation's activities expose it to a variety of financial risks including credit and liquidity risks and the effects of changes in foreign currency rates. The corporation's overall risk management programme focuses on unpredictability of changes in the operating environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk.

i) Foreign exchange risk

ii) The corporation receives payments from clients and makes payments in US Dollars. The corporation is therefore exposed to foreign exchange risk arising primarily with respect to the US dollar transactions.

Foreign exchange risk arises from future commercial transactions, recognized income, assets and liabilities.

iii) Interest rate risk

The corporation is exposed to interest rate risk as it holds short term bank deposits at fixed interest rates.

iv) Price risk

The corporation does not hold investments that would be subject to price risk hence this risk is not relevant

v) Credit risk

The corporation's credit risk is primarily attributable to its trade receivables.

vi) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors through the senior management of the corporation. Management has built an appropriate liquidity risk management framework for the management of the corporation's short, medium and long-term funding and liquidity management requirements. The corporation manages liquidity risk by maintaining banking facilities through continuous monitoring of forecast and actual cash flows.

NOTES TO THE FINANCIAL STATEMENTS (continued)

		Actual Un-Audited 2022-2023	Actual Audited 2021-2022
6	**REVENUE**		
	Conference	181,333,671	113,127,675
	Rent	310,896,979	299,102,075
	Leased Parking	193,541,720	187,458,973
	Catering	129,795,813	30,159,041
	Equipment	94,309,504	39,686,121
		909,877,688	**669,533,884**
7	**COST OF SALES**		
	Third party outsourcing	431,357,782	44,331,824
	MICE & Participation in exhibitions	56,266,739	32,470,203
		487,624,521	**76,802,027**
8	**GRANTS FROM NATIONAL GOVERNMENT**		
	Recurrent grant received (Deffered Income)	-	400,000,000
		-	400,000,000
	The amount received from the Ministry of Tourism and Wildlife recognised as deffered income		
10	**Other Income**		
	Casual Parking	3,482,400	1,698,348
	Tower viewing	19,718,284	5,300,074
	Other sources	280,000	24,110
	Tourism Fund-Recurrent	12,000,000	
	GoK grant-Recurrent	400,000,000	
		435,480,684	**7,022,532**
11	**Depreciation and Amortization**		
	Buildings & civil works	41,737,783	
	Furniture & Fittings	2,713,403	
	Office equipment	2,443,502	
	Motor vehicle	4,932,500	
	Plant & equipment	379,688	
	Communication Equipment	2,268,726	
	Amortization of Intangible Assets	3,618,791	
	Prior year adjustment (Intangible Asset)	9,123,456	
		67,217,849	
12	**ADMINISTRATION COSTS**		
	Staff costs (note 12b)	555,851,943	231,899,632
	Directors emoluments	3,323,667	5,095,352
	Electricity and water	65,500,384	54,385,208
	Communication services and supplies(Postage,Telephone,Email&Internet)	3,420,340	2,606,176
	Transportation, travelling and subsistence(Transport operating expenses,Travelling & Accomodation.)	66,790,642	32,444,814
	Printing, stationery and photocopying	9,759,300	9,629,633
	Staff training expenses	25,416,113	15,772,307

	Hospitality supplies and services(Entertainment& Staff Welfare)	35,532,684	22,705,070
	Insurance costs(general)	15,236,507	13,982,170
	Bank charges and commissions	1,373,157	910,001
	Auditors' fees	2,463,999	1,464,000
	Consultancy fees	195,947,871	1,391,140
	Legal fees, licence & rates	76,955,480	4,578,122
	Repairs and maintenance	374,404,245	17,866,030
	Other operating expenses(CSI,Mship to Prof bodies,Contracted Services,Consumables,R&D,Replacement and renewals)	79,808,688	63,228,783
	Provision for bad debts	29,267,884	25,365,041
		1,541,052,904	503,323,479
12b	**Staff Costs**		
	Salaries and allowances of permanent employees	508,286,094	181,806,293
	Gratuity, Pension and Retirement Benefits	9,328,582	10,096,011
	Medical expenses	37,544,190	39,997,328
	Casual	693,077	
		555,851,943	231,899,632
	The average number of employees at the end of the year was:		
	Permanent employees – Management	135	128
		135	128
13	SELLING AND DISTRIBUTION COSTS		
	Advertising and publicity	1,252,969	697,759
	Production of promotional materials	5,769,648	1,124,080
		7,022,617	1,821,839
14	INCOME TAX EXPENSE/(CREDIT)		
	(a) Current taxation		
	Current taxation based on the adjusted profit for the year at 30%	(227,267,856)	10,663,361
		(227,267,856)	10,663,361
17	INVENTORIES		
	Technical Items	287,780	793,485
	Housekeeping Items	282,381	1,428,100
	ICT items	3,612,770	380,832
	Stationery Items	1,220,195	818,194
	Promotional Items	1,766,150	201,830
	Consumables	4,500	213,072
	Security Items	-	
		7,173,776	3,835,513
18	TRADE AND OTHER RECEIVABLES		
	Net trade receivables (note 19a)	946,328,252	820,136,325

	Deposits and prepayments		
	Gross trade and other receivables	946,328,252	820,136,325
19a	TRADE RECEIVABLES		
	Trade receivables	975,596,136	845,501,366
	General provision for Bad Debts	(29,267,884)	(25,365,041)
	Net trade Receivables	946,328,252	820,136,325
19c	STAFF RECEIVABLES		
	Gross car loans & salary advance	5,957,682	7,478,900
	Staff Imprest	2,049,704	384,400
20	CORPORATION TAX LIABILITY		
	At beginning of the year	156,299,714	145,636,354
	Income tax charge for the year	(227,267,856)	10,663,361
	Income tax paid during the year		
	At end of the Year	(70,968,141)	156,299,714
21	CASH AND CASH EQUIVALENTS BANK AND CASH BALANCES BANK & BRANCH		
	Kenya Commercial Bank - KICC-Operations	33,241,896	20,532,834
	Kenya Commercial Bank - KICC-Development	3,707,447	1,912,010
	Kenya Commercial Bank - KICC-USD.558,995.84	78,259,418	16,247,951
	Co-operative Bank - CITYHALL-Operations	12,929,936	362,775,441
	Petty Cash		
	MPESA Control ACC		
	TOTAL CASH AND CASH EQUIVALENTS	128,138,697	401,468,235

[*The bulk of the cash at bank was held at Cooperative Bank of Kenya and Kenya Commercial Bank, the Corporation's main bankers.*]

22	CAPITAL FUND		
	Work in progress Investment (Refurbishment of Tsavo and Rehabilitation of Fountain)		
	Capital contribution	3,933,446,000	3,933,446,000
		3,933,446,000	3,933,446,000

The Corporation is a parastatl wholly(100%) owned by Government of Kenya,the Capital Reserve includes the original valuation of the Corpration and subsequent grants received from the Goverrnent.

23	REVALUATION RESERVE		
	Surplus on Revaluation of Property Plant & Equipment(PPE)	1,137,438,325	1,137,438,325
		1,137,438,325	1,137,438,325
24	RETAINED EARNINGS		

The retained earnings represent amounts utilised to finance the Corporation's business activities.

At the beginning of the year	55,330,340	30,449,165
Net Profit for the year	(530,291,663)	24,881,175
Prior year adjustment (Custom duty)	(80,000,000)	

	Prior year adjustment (Pending bill not verified)	(61,536,219)	
	At the close of the year	(616,497,543)	55,330,340
25	TRADE AND OTHER PAYABLES		
	Trade payables	153,805,053	338,197,526
	Provisions for WTO pending bills	83,908,475	109,643,534
	Provisional for court yard renovation phase 1	52,411,665	52,411,665
	VAT Liability	31,296,960	76,463,003
	Income tax charge for the quarter	-	
	Other Payables-Deposits & Prepayments	-	
	Provisions for Upgrade Of ERP system	22,150,000	
	Provisions for gratuity	15,784,073	10,096,011
	Provisions Salary Review	308,502,480	
	Provision for legal contigency	67,909,486	
	Accrued expenses	14,603,376	12,674,108
	Deffered Income (note 8)	-	400,000,000
		750,371,568	999,485,847
26	NOTES TO THE STATEMENT OF CASHFLOWS		
	(a) Reconciliation of operating profit/ (loss) to Cash generated from/ (used in) operations		
	Operating profit/ (loss)	(757,559,519)	35,544,535
	Depreciation and amortization	67,217,849	59,064,535
	Prior year adjustment on WIP	857,117,999	
	Operating profit/ (loss) before working capital changes	**166,776,329**	**94,609,071**
	(Increase)/decrease in Inventories	(3,338,263)	(2,277,115)
	(Increase)/decrease in trade and other receivables	(126,191,927)	(394,051)
	Increase/ (decrease) in trade and other payables	(249,114,279)	(73,582,066)
	Increase/ (decrease) in staff advances and loans	(1,521,218)	812,143
	Cash generated from/ (used in) operations	**(213,389,358)**	**19,167,981**
	(b) Analysis of cash and cash equivalents		
	Cash at bank	128,138,697	401,468,235
	Balance at end of the year	128,138,697	401,468,235
27	RELATED PARTY TRANSACTIONS DISCLOSURES		
	The Corporation is wholly owned and controlled by the Government of Kenya through the Ministry of Tourism; there are no other companies which are related to the Corporation.		
	The following transactions were carried out with related parties:		100,000,000
	i) Key management compensation		
	Salaries and other short-term employment benefits	555,851,943	231,899,632
	ii) Directors' remuneration		
	The Board of Directors remuneration for last twelve (12) months	3,352,581	5,095,352
	(iii) Employees		
	The Corporation provides certain qualifying employees with car loans on terms more favourable than available in the market. The benefit obtained by staff is subjected to income tax as required under the Kenya Income Tax Act.	135	135

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 PROPERTY, PLANT AND EQUIPMENTS (PPE)

DETAILS	Freehold land	Buildings & civil works	Furniture & Fittings	Office equipment	Motor vehicle	Plant & equipment	Communication Equipment	Capital work in progress	Total
	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS
COST OR VALUATION									
At July, 2019 (Cost)	1,000,000,000	1,662,051,927	108,558,625	14,165,000	13,015,000	33,980,625	166,647,400	1,033,111,344	4,031,529,921
Additions								-	-
Capital Revaluation Reserve	1,296,000,000	2,748,073	(87,907,134)	(7,791,160)	6,715,000	(31,258,125)	(149,015,465)	84,231,140	1,113,722,329
At 30th June 2020 at Valuation	2,296,000,000	1,664,800,000	20,651,491	6,373,840	19,730,000	2,722,500	17,631,935	1,117,342,484	5,145,252,250
DEPRECIATION									
At July 2019	-	-	-	-	-	-	-	-	-
Charge for the Year	-	41,620,000	2,580,213	1,912,155	4,932,500	340,313	2,203,467	-	53,588,648
Prior year adjustment									
At 30th June 2020	-	41,620,000	2,580,213	1,912,155	4,932,500	340,313	2,203,467	-	53,588,648
At July, 2019 at Valuation	2,296,000,000	1,664,800,000	20,651,491	6,373,840	19,730,000	2,722,500	17,631,935	1,117,342,484	5,145,252,250
At 30th June 2020	2,296,000,000	1,623,180,000	18,071,278	4,461,685	14,797,500	2,382,187	15,428,468	1,117,342,484	5,091,663,602
				-					-
Balance As at 30th September 2020	2,296,000,000	1,623,180,000	18,071,278	4,461,685	14,797,500	2,382,187	15,428,468	1,117,342,484	5,091,663,602
DEPRECIATION									
At Sept 2020	-	-	-	-	-	-	-	-	-
Depreciation for the quarter ending 30th Sept 2020	-	10,490,521	650,651	481,969	1,243,260	85,777	555,527	-	13,507,705
Accumulated Dep as at 30th Sept 2020	-	52,110,521	3,230,864	2,394,124	6,175,760	426,090	2,758,994	-	67,096,353
At July, 2019 at Valuation	2,296,000,000	1,664,800,000	20,651,491	6,373,840	19,730,000	2,722,500	17,631,935	1,117,342,484	5,145,252,250
Net book value as at 30th Sept 2020	2,296,000,000	1,612,689,479	17,420,627	3,979,716	13,554,240	2,296,410	14,872,941	1,117,342,484	5,078,155,897
				-					-
Balance As at 30th September 2020	2,296,000,000	1,612,689,479	17,420,627	3,979,716	13,554,240	2,296,410	14,872,941	1,117,342,484	5,078,155,897
Additionals	-		639,038	148,000	-	-	-	-	787,038
Transfer from WIP-Prior year adjustment	-								-
DEPRECIATION									
As at 31st Dec 2020									-
Depreciation for the quarter ending 31st Dec 2020	-	10,490,521	650,651	481,969	1,243,260	85,777	555,527	-	13,507,705
Accumulated Dep as at 31st Dec 2020	-	62,601,041	3,881,515	2,876,093	7,419,021	511,868	3,314,521	-	80,604,059
NET BOOK VALUE AS AT 31ST DEC 2020	2,296,000,000	1,602,198,959	17,409,014	3,645,747	12,310,979	2,210,632	14,317,414	1,117,342,484	5,065,435,229
Additionals	-	-	-	935,000	-	-	-	-	935,000

Transfer from WIP-Prior year adjustment	-								-
DEPRECIATION									
As at 31st March 2021									-
Depreciation for the quarter ending 31st Mar 2021	-	10,262,466	636,492	541,615	1,216,233	83,913	547,951	-	13,288,669
Accumulated Dep as at 31st March 2021	-	72,863,507	4,518,007	3,417,708	8,635,253	595,781	3,862,472	-	93,892,728
NET BOOK VALUE AS AT 31ST Mar 2020	2,296,000,000	1,591,936,493	16,772,522	4,039,132	11,094,747	2,126,719	13,769,463	1,117,342,484	5,053,081,560
Additionals	-	3,460,828.00	-	-	-	-	-	-	3,460,828
Transfer from WIP-Prior year adjustment	-								-
DEPRECIATION									
As at 30th June 2021									-
Depreciation for the quarter ending 30th June 2021	-	10,463,014	643,612.68	554,033	1,229,747	84,845	554,033	-	13,529,285
Accumulated Dep as at 30th June 2021	-	83,326,521	5,161,620	3,971,742	9,865,000	680,626	4,416,505	-	107,422,013
NET BOOK VALUE AS AT 30th JUNE 2021	2,296,000,000	1,584,934,307	16,128,909	3,485,098	9,865,000	2,041,874	13,215,430	1,117,342,484	5,043,013,102
Additionals	-	-	-	-	-	-	-	-	-
Transfer from WIP-Prior year adjustment	-								-
DEPRECIATION									
As at 30th Sept 2021									-
Depreciation for the quarter ending 30th Sept 2021	-	10,490,521	650,651.10	481,969	1,243,260	85,777	560,125	-	13,512,303
Accumulated Dep as at 30th June 2021	-	93,817,042	5,812,271	4,453,711	11,108,260	766,403	4,976,630	-	120,934,317
NET BOOK VALUE AS AT 30th Sept 2021	2,296,000,000	1,574,443,786	15,478,258	3,003,129	8,621,740	1,956,097	12,655,305	1,117,342,484	5,028,215,046
Additionals	-	-	-	-	-	-	91,379	-	
Transfer from WIP-Prior year adjustment	-								-
DEPRECIATION									
As at 30th Sept 2021									-
Depreciation for the quarter ending 31st Dec 2021	-	10,490,521	650,651.10	481,969	1,243,260	85,777	564,172	-	13,516,350
Accumulated Dep as at 31st December 2021	-	104,307,562	6,462,922	4,935,680	12,351,521	852,180	5,540,802	-	134,450,667
NET BOOK VALUE AS AT 31st Dec 2021	2,296,000,000	1,563,953,266	14,827,607	2,521,160	7,378,479	1,870,320	12,182,512	1,117,342,484	5,014,698,696
Additionals	-	-	-	-	-	-	-	-	-
Transfer from WIP-Prior year adjustment	-								-
DEPRECIATION									
As at 31st March 2022									-
Depreciation for the quarter ending 31st March 2022	-	10,262,466	636,491.75	471,490	1,216,233	83,913	559,414	-	13,230,007
Accumulated Dep as at 31st March 2022	-	114,570,028	7,099,414	5,407,170	13,567,753	936,093	6,100,216	-	147,680,674
NET BOOK VALUE AS AT 31st March 2022	2,296,000,000	1,553,690,800	14,191,115	2,049,670	6,162,247	1,786,407	11,623,098	1,117,342,484	5,001,468,689
Additionals	-	48,596,261.00	-	-	-	-	-	-	48,596,261
Transfer from WIP-Prior year adjustment									-

DEPRECIATION									
As at 31st March 2022									-
Depreciation for the quarter ending 30th June 2022	-	10,680,220	643,612.68	476,731	1,229,747	84,845	565,623	-	13,680,779
Accumulated Dep as at 30th June 2022	-	125,250,248	7,743,026	5,883,901	14,797,500	1,020,938	6,665,840	-	161,361,453
NET BOOK VALUE AS AT 30th June 2022	2,296,000,000	1,591,606,841	13,547,503	1,572,939	4,932,500	1,701,562	11,057,475	1,117,342,484	5,036,384,170
Additionals	-	5,362,680.00	-	-	-	-	-	-	5,362,680
Transfer from WIP-Prior year adjustment									-
DEPRECIATION									
As at 30th Sept 2022									-
Depreciation for the quarter ending 30th Sept 2022	-	10,557,554	650,651	481,969	1,243,260	85,777	571,842	-	13,591,054
Accumulated Dep as at 30th Sept 2022	-	135,807,802	8,393,677	6,365,870	16,040,760	1,106,716	7,237,682	-	174,952,508
NET BOOK VALUE AS AT 30th Sept 2022	2,296,000,000	1,586,411,967	12,896,851	1,090,970	3,689,240	1,615,784	10,485,632	1,117,342,484	5,028,155,796
Additionals	-	8,120,000.00	-	-	-	-	-	-	8,120,000
Transfer from WIP-Prior year adjustment									-
DEPRECIATION									
As at 31st Dec 2022									-
Depreciation for the quarter ending 31st Dec 2022	-	10,541,270.55	650,644.62	481,969	1,243,260	85,777	571,847	-	13,574,769
Accumulated Dep as at 30th Sept 2022	-	146,349,073	9,044,322	6,847,839	17,284,021	1,192,493	7,809,529	-	188,527,276
NET BOOK VALUE AS AT 31st Dec 2022	2,296,000,000	1,591,840,696	12,246,207	609,001	2,445,979	1,530,007	9,913,786	1,117,342,484	5,022,701,028
Additionals	-		-	-	-	-	-	-	-
Transfer from WIP-Prior year adjustment									-
DEPRECIATION									
As at 31st March 2023									-
Depreciation for the quarter ending 31st March 2023	-	10,262,465.76	636,492	481,969	1,216,233	83,913	559,414	-	13,240,486
Accumulated Dep as at 31st March 2023	-	156,611,538	9,680,814	7,329,808	18,500,253	1,276,406	8,368,943	-	201,767,762
NET BOOK VALUE AS AT 31st March 2023	2,296,000,000	1,581,578,230	11,609,715	127,032	1,229,747	1,446,094	9,354,372	1,117,342,484	5,018,687,674
WIP (Refurbishment of Tsavo and Rehabilitation of Fountain)									-
Upgrade of ERP system									-
Additionals	-		4,850,000	10,498,000	-	1,109,500	-	-	16,457,500
									-
Transfer from WIP-Prior year adjustment									-
Erroneous Repairs and maintenance included as WIP								(363,411,976)	(363,411,976)
Erroneous printing and Stationery included as WIP								(7,424,000)	(7,424,000)
Eroneous Third Party expenses included as WIP								(291,398,952)	(291,398,952)
Eroneous Consultancy expenses included as WIP								(194,883,071)	(194,883,071)
Eroneous inclusion of payment for ERP system included as WIP								(9,123,456)	(9,123,456)
Eroneous inclusion of payment for KRA included								(80,000,000)	(80,000,000)

as WIP									
Eroneous inclusion of pending bill not verified included as WIP								(61,536,219)	(61,536,219)
Prior year adjustment on assets		57,131,942	6,813,760	1,260,000				(65,205,702)	
DEPRECIATION									-
As at 30th June 2023									-
Depreciation for the quarter ending 3 2023	-	10,376,493.16	775,616	997,595	1,229,746	124,220	565,623	-	14,069,294
Accumulated Dep as at 31st March 2023	-	224,119,974	17,270,189	8,327,403	19,730,000	1,400,626	8,934,566	-	279,782,758
NET BOOK VALUE AS AT 30th June 2023	2,296,000,000	1,628,333,679	22,497,859	10,887,437	0	2,431,374	8,788,748	44,359,108	4,013,298,206

NOTE NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
16 INTANGIBLE ASSET AND SOFTWARE

DETAILS	Softwares
	Kshs
COST OR VALUATION	
At July, 2019 (Cost)	13,068,509
Additions	
Capital Revaluation Reserve	23,715,995
At 30th June 2020 at Valuation	36,784,504
AMORTIZATION	
At July 2019	
Charge for the Year	12,088,335
Prior year adjustment	
At 30th June 2020	12,088,335
NET BOOK VALUE	
At July, 2019 at Valuation	36,784,504
At 30th June 2020	24,696,169
AMORTIZATION	
As at Sept 2020	
Amortization for the quarter ending 30th Sept 2020	2,057,808
Prior year adjustment	
Accumulated Amortization as at 30th Sept 2020	14,146,143
NET BOOK VALUE	
At July, 2019 at Valuation	36,784,504
Net book value as at 30th Sept 2020	22,638,361
AMORTIZATION	
As at Dec 2020	
Amortization for the quarter ending 31st Dec 2020	1,886,341
Prior year adjustment	
Accumulated Amortization as at 31st Dec 2020	16,032,484
NET BOOK VALUE	
At July, 2019 at Valuation	36,784,504
Net book value as at 31st December 2020	20,752,020
AMORTIZATION	
As at March 2021	
Amortization for the quarter ending 31st March 2021	1,729,162
Prior year adjustment	
Accumulated Amortization as at 31st March 2021	17,761,646
NET BOOK VALUE	
At July, 2019 at Valuation	36,784,504
Net book value as at 31st March 2021	19,022,858
AMORTIZATION	
As at June 2021	
Amortization for the quarter ending 30th June 2021	1,585,080
Prior year adjustment	
Accumulated Amortization as at 30th June 2021	19,346,726
NET BOOK VALUE	
At July, 2019 at Valuation	36,784,504
Net book value as at 30th June 2021	17,437,778
AMORTIZATION	
As at Sept 2021	

Amortization for the quarter ending 30th June 2021	1,453,003
Prior year adjustment	
Accumulated Amortization as at 30th Sept 2021	20,799,729
NET BOOK VALUE	
At July, 2019 at Valuation	36,784,504
Net book value as at 30th Sept 2021	15,984,775
As at Dec 2021	
Amortization for the quarter ending 30th June 2021	1,331,931
Prior year adjustment	
Accumulated Amortization as at 30th Dec 2021	22,131,660
NET BOOK VALUE	
At July, 2019 at Valuation	36,784,504
Net book value as at 31st Dec 2021	14,652,844
As at March 2022	
Amortization for the quarter ending 31st March 2022	1,220,948
Prior year adjustment	
Accumulated Amortization as at 31st March 2022	23,352,608
NET BOOK VALUE	
At July, 2019 at Valuation	36,784,504
Net book value as at 31st March 2022	13,431,896
Amortization for the quarter ending 30th June 2022	1,119,213
Prior year adjustment	
Accumulated Amortization as at 30th June 2022	24,471,821
NET BOOK VALUE	
At July, 2019 at Valuation	36,784,504
Net book value as at 30th June 2022	12,312,683
Amortization for the quarter ending 30th Sept 2022	1,025,954
Prior year adjustment	
Accumulated Amortization as at 30th Sept 2022	25,497,775
NET BOOK VALUE	
At July, 2019 at Valuation	36,784,504
Net book value as at 30th Sept 2022	11,286,729
Amortization for the quarter ending 31st Dec 2022	940,467
Prior year adjustment	
Accumulated Amortization as at 31st Dec 2022	26,438,242
NET BOOK VALUE	
At July, 2019 at Valuation	36,784,504
Net book value as at 31st Dec 2022	10,346,262
Amortization for the quarter ending 31st March 2023	862,102
Prior year adjustment	
Accumulated Amortization as at 31st March 2023	27,300,344
NET BOOK VALUE	
At July, 2019 at Valuation	36,784,504
Net book value as at 31st March 2023	9,484,160
Amortization for the quarter ending 30th June 2023	790,268
Prior year adjustment	
Accumulated Amortization as at 31st March 2023	28,090,612
Upgrade of ERP (WIP)	22,150,000
NET BOOK VALUE	
At July, 2019 at Valuation	36,784,504
Net book value as at 30th June 2023	30,843,892

18. DISCLOSURE:

Name of the Valuing Firm: SYAGGA AND ASSOCIATES LIMITED-RESEARCH & DEVELOPMENT CONSULTANTS

Qualifications: Prof Maurice Syagga PhD.MISK, Registered and Licensed Valuer.

Revaluation basis applied: For book purposes at market value, and the insurable value for insurance purposes.

Date of Valuation: 15th December 2017

CONTIGENCIES

i) World Trade Organization Conference (2015)

Kenya won the bid to host the 10th World Trade Organization (WTO) Ministerial Conference held from 15th to 18th December 2015. An Inter-Ministerial Organization Committee was established to coordinate all the activities geared towards successful hosting of the Conference. Several WTO related projects were initiated and procured without following laid out procurement procedures and regulations. The Corporation had recognized a provision of **Kshs.431Million** as potential liabilities in its books. After verification of accruing pending bills by office of Auditor General, **Kshs.198.4Million** has been settled based on the recommendation by Office of the Auditor General.

Out of the verified outstanding pending bill; there was payment a payment of **Kshs 25.7 Million** during the year. The Corporation continues to carry a further provision of **Kshs 83.9 Million** on WTO related pending bills in its books.

PENDING BILLS -2015(VERIFIED & RECOMMENDED FOR PAYMENT BY KENAO)		
NO.	NAME OF SUPPLIER	AMOUNT
1	Tintin Restaurant	23,487,374
2	Safaripark Hotel & Casino	21,147,262
3	Sage Media	20,000,000
4	Radar Security Services Limited	18,270,078
5	Bella Kitchen	9,012,478
6	Viable Deco	6,813,760
7	Express Automation	6,000,800
8	Combiat Agencies	5,400,000
9	Silverpearl Creations	5,204,393
10	Thames Electrical	5,020,178
11	Nordica Logistics	4,500,000
12	Capital Group Limited 98.4 FM	4,126,600
13	Pillar Audio Visual Services Limited	3,436,540
14	Mema Trader Company Limited	3,244,899
15	Classique Concepts	3,001,920
16	Conference Caterers	2,992,166
17	Elzika Enterprises	2,438,100
18	House 7 Degrees	2,436,240
19	Hathaway General Merchants	2,067,300
20	Shwester Supplies Limited	2,066,873
21	Repcon Group Limited	1,970,000
22	Sukali & Associates Company	1,950,000
23	Mansard Contractors	1,942,850
24	Punja Supplies Limited	1,928,562

PENDING BILLS -2015(VERIFIED & RECOMMENDED FOR PAYMENT BY KENAO)		
NO.	NAME OF SUPPLIER	AMOUNT
25	Skyvin Limited	1,926,800
26	Milda Agencies	1,870,881
27	Moment Contractors Limited	1,654,900
28	Tango Logistics	1,605,500
29	Bluryl Media Limited	1,357,200
30	Africa Metal Detectors	1,183,200
31	Proximus Company Limited	1,149,960
32	Opticom Kenya Limited	1,095,602
33	Joel E.D Nyaseme and Associates	986,000
34	Ravina Agencies Limited	981,000
35	Nuritek	750,000
36	Marsland Services	542,920
37	Compassy Trading Company Limited	496,500
38	Sap International Company Limited	495,000
39	Creative Consolidated Systems	485,000
40	Candoors Business Services	477,365
41	Dew Capital Investments Ltd	471,225
42	Fairdeal Superstores Ltd	449,995
43	Artoffice Furniture Limited	434,800
44	Philiki Enterprises	431,740
45	Maline General Supplies	412,500
46	Kenfront Consortium	400,500
47	Aguilla Ventures Limited	397,285
48	Prifannic Creations Limited	390,000
49	Sajucy Company Limited	381,000
50	Tamata Supplies	338,305
51	Chana Construction	247,500
52	Fachimo Florist	201,000
53	Rescuemed Supplies	175,392
54	Aristoc Ltd	164,220
55	Unique loo	142,912
56	Albin Enterprises Limited	107,600
57	Becitech Technologies	96,940
58	Advision Limited	92,220
59	Jaruh Supplies	52,500
60	Security Group Limited	14,616
	Total	**180,918,452**
	Amount paid during the quarter	
1	Safaripark Hotel & Casino	3,216,645
2	Safaripark Hotel & Casino	21,147,262
3	Thames Electrical	5,204,393
	Total	**29,568,300**
	Balance as 30th September 2021	**151,350,152**
1	Radar Security Services Limited	18,270,078
2	Pillar Audio Visual Services Limited	3,436,540
		21,706,618
	Balance as 31st Decemberr 2021	**129,643,534**
	Balance as 31st March 2022	**129,643,534**
1	Sage Media	20,000,000
	Balance as 30th June 2022	**109,643,534**

PENDING BILLS -2015(VERIFIED & RECOMMENDED FOR PAYMENT BY KENAO)		
NO.	NAME OF SUPPLIER	AMOUNT
1	Bella Kitchens & Interiors Ltd	9,012,478.00
2	Combiat Agencies	5,400,000.00
3	Maline General Supplies	412,500.00
4	Proximus co. Ltd	1,149,960.00
5	Punja Supplies	1,928,562.00
6	Schwester Supplies Limited	2,066,873.00
7	Sukali & Associates	1,950,000.00
8	Tamata Suppliers Limited	338,305.00
9	Tango Logistics	1,605,500.00
		23,864,178.00
	Balance as 31st Dec 2022	85,779,356.00
1	Milda Agencies	1,870,881.00
	Balance as 30th March 2023	83,908,475.00
	Balance as 30th June 2023	83,908,475.00

ii) Tax Liability

Tax liability is Kshs.222.8 Million made up of corporate tax of Kshs.191.5 Million and VAT liability of Kshs. 31.3 Million. The corporation remains committed to settling pending tax liabilities as and when funds are available. Due to cash flow constraints, the Corporation continues to implement the payment of instalment plan of approximately Kshs.5 Million per Month. During the year Corporation managed to pay Ksh.45.2 Million on VAT arrears.

iii). Pending Litigation

The Corporation has 15(Fifteen) Cases pending in different Courts i.e. Employment and Labour Relations Court, land Matters, Commercial Matters, Judicial Review Matters and Tenancy/ Landlord disputes. Depending on the outcome of the cases the total contingent liabilities arising from the same is approximately 450 (Four Hundred and Fifty) Million.

19.AUDIT RECOMMENDATIONS

Reference No on the external audit report	Issue/Observations from Auditor	Management Comments	Focal Point Person to resolve the issue	Status (Resolved /Not resolved)	Time frame
1.1	Lack of title to COMESA, courtyard Land, Garden square restaurant	The Corporation is in talk with the relevant Government agencies with an aim of getting title for the said pieces of land.	CEO	Not resolved	On going
2.1	Long outstanding debts	Given that most of the KICC sales are on credit, the debt portfolio has increased in tandem with the increase in sales. However, management is in the process of contracting the services of debt collectors to assist in debt recovery.	CEO	Not Resolved	On going
3.0	Outstanding debts for staff who left the organization	Demand notices to former members of staff to clear outstanding debts. So far 2 former members of staff have fully paid up their debts	CEO	Not resolved	On going
4.0	Flawed procurement process- (WTO) Conference	Special audit for WTO projects was undertaken by KENAO and resultant bills recommended for payment settled.	CEO	Not Resolved	On going

Patricia Ondeng'
Ag. Chief Executive Officer

CPA, CS James Mwaura
Director Corporate Services
ICPAK Member No. 14575

Hon. Adelina Mwau, OGW
Chairperson
Board of Directors

REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE NATIONAL ASSEMBLY
PAPERS LAID
DATE: 05 JUN 2024 DAY: Wednesday
TABLED BY: Hon. Wanjiku Muhia, MP
CLERK-AT THE-TABLE: M. Modo

THE AUDITOR-GENERAL

ON

KENYA ORDNANCE FACTORIES CORPORATION

FOR THE YEAR ENDED 30 JUNE, 2023

KENYA ORDNANCE FACTORIES CORPORATION

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2023

Prepared in accordance with the International Financial Reporting Standards (IFRS)

Table of Contents

1. Acronyms and Glossary of Terms

IFRS	International Financial Reporting Standards.
MD	Managing Director.
NT	National Treasury.
PFM	Public Finance Management.
PSASB	Public Sector Accounting Standards Board.
KOFC	Kenya Ordnance Factories Corporation.
R&D	Research and Development.
DFPPF	Defence Food Production and Processing Factory.
MoD	Ministry of Defence.
NT	National Treasury.
CLS	Chief of Legal Services.
FY	Financial Year.

2. Key Entity Information

a) Background information

The Kenya Ordnance Factories Corporation (KOFC) was established as a State Corporation in July 1997. The Corporation was exempted from the provision of the State Corporation Act (CAP 446) vide the legal Notice No. 522 of the 31 October 1997. However, no gazettement was done to this effect during the changeover to a State Corporation from RTS Ngano Farm Project. KOFC mandate was expanded through KOFC (Amendment) Order, 2020 gazetted on 07 January 2021 to include production of defence artillery; manufacture of apparels; assembling and manufacture of motor vehicles; construction of roads, water pans buildings; and other structures and carrying food processing.

KOFC is a licensed ammunition dealer and water undertaker.

b) Principal Activities

The Corporation principle activities are to:

a. Manufacture military hardware, machinery and equipment.
b. Produce defense articles.
c. Manufacture apparels.
d. Assemble and manufacture motor vehicles.
e. Construct roads, water pans, buildings and other structures and carry out food processing.

The Corporation can also engage in other activities normally connected with and incidental to the object stated above as the Board may, with approval of the president determine.

Mandate

The mandate of the Corporation is to:

a. Manufacture Military Hardware, Machinery and equipment.
b. Produce defense articles.
c. Manufacture apparels.
d. Assemble and manufacture motor vehicles.
e. Construct roads, water pans, buildings and other structures and carry out food processing.

The Corporation may engage in other activities normally connected with and incidental to the object stated above as the Board may, with approval of the president, determine.

Vision

The vision of the Corporation is to become a premier manufacturer of world class Military hardware and related products.

Mission

The mission of KOFC is to enhance National Security through guaranteed production of quality small arms ammunition and related auxiliary products.

Objectives

KOFC has established its objectives as follows:

a. Self-sufficiency in supply of small arms ammunition.
b. Transfer of relevant technology.
c. Sale of surplus ammunition to friendly countries.
d. Create employment in line with Vision 2030.
e. Enhance Industrialization in line with vision 2030.
f. Diversification. (Production of dehydrated vegetables, bakery products, Farming, Milling of Maize and purified bottled water).

ISO Certification

KOFC is ISO 9001-2008 CERTIFIED. The certificates registration number KEBS/QMS/RF/036 Rev. 02 was reissued by the Kenya Bureau of Standards on the 07 June 2016 and expired on 14 September 2018. The ISO training has been concluded and the documentation and certification process is on-going.

c) **Directors**

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

	Director	Position	Date
1.	**Gen (Rtd) Robert K Kibochi**	Chairman	Left on 28 Apr 2023
2.	**Gen Francis O Ogolla (CDF)**	Chairman	Appointed on 28 Apr 2023
3.	**Lt Gen (Rtd) W R Koipaton**	Director	Left on 20 Jul 22
4.	**Lt Gen Peter M Njiru (Comd KA)**	Director	Appointed on 20 Jul 22
5.	**Maj Gen John M Omenda (Comd KAF)**	Director	Appointed on 23 Jul 21
6.	**Maj Gen Jimson L Mutai (Comd KN)**	Director	Appointed on 29 Sep 20
7.	**Dr Julius Muia (Former PS NT)**	Director	Left on 01 Dec 22
8.	**Dr I M Mohamed (Former PS Defence)**	Director	Left on 01 Dec 22
9.	**Dr Chris Kiptoo (PS NT)**	Director	Appointed on 01 Dec 22
10.	**Mr Patrick Mariru (PS Defence)**	Director	Appointed on 01 Dec 22
11.	**Brig (Rtd) J N Muiruri**	Director	Appointed on 25 Feb 22
12.	**Brig (Rtd) P T Ibeere**	Director	Appointed on 25 Feb 22
13.	**Brig (Rtd) D C Bartonjo**	Director	Appointed on 24 May 22
14.	**Maj Gen M K Ong'oyi**	Managing Director	Left on 26 May 23
15.	**Maj Gen D N Kamuri**	Managing Director	Appointed on 26 May 23
16.	**Brig Yvonne K Kirui (CLS)**	BoD Secretary	Appointed on 23 Jul 21

d) **Corporate Secretary**
Brig Yvonne Kerubo
P.O. Box 6634-30100
Eldoret

e) **Corporate Headquarters**
Kenya Ordnance Factories Corporation (KOFC)
RTS Ngano Project
Kitale Eldoret Road
P. O. Box 6634
Eldoret

f) **Contacts**
Email: fm@kofc.co.ke, info@kofc.co.ke
Website: www.kofc.co.ke
Tel:+254 722 209639 and +254 773 589 481

g) **Bankers**
Co-operative Bank of Kenya
Eldoret Branch
P. O. Box 2948 - 30100
Eldoret

Kenya Commercial Bank
Uganda Road Branch
P. O. Box 5197 - 30100
Eldoret

Equity Bank of Kenya
Eldoret Branch
P.O. Box 2201 - 30100
Eldoret

National Bank of Kenya
Eldoret Branch
P.O. Box 220130100
Eldoret

h) **Independent Auditors**
The Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P. O. Box 30084
Nairobi

j. Principle Legal Advisor

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

3. The Board of Directors

Gen Francis Omondi Ogolla
MGH EBS HSC 'ndc' (K) 'psc' (FRA)
Chairman

Gen Ogolla is the Chief of the Defence Forces. He is a graduate of École Militaire de Paris and National Defence College of Kenya. He holds a Diploma in International Studies and Military Science from Egerton University, a Bachelor of Arts degree in Political Science, Armed Conflict and Peace Studies and Master of Arts in International Studies from the University of Nairobi. He has served as an observer, military information officer and held various appointments in training, command and staff positions.

Lt Gen Peter M Njiru
MGH CBS 'rcds' (UK) 'psc' (K)

Lt Gen Njiru is the Commander of the Kenya Army Commander. He is a graduate of the RCDS Course in the United Kingdom and hold a Master of Arts degree in International Security and Strategy from King's College, London. He has held various appointments in training, command and staff positions and served in the United Nations mission.

Maj Gen John M Omenda
EBS SS OGW 'rcds' (UK) 'psc' (K)

Maj Gen Omenda is the Commander of the Kenya Air force. He is a graduate of Defence Staff College of Kenya and Royal College of Defence Studies, UK. He holds a Diploma in Strategic Studies, Bachelor of Arts in Peace and Conflict studies and Master of Arts in International Security and Strategy. He has held various appointments in training, command and staff duties.

Maj Gen Jimson L Mutai
MGH MBS 'ndc' (K) 'psc' (K)

Maj Gen Mutai is the Commander Kenya Navy. He is a graduate of National Defence College Kenya and holds Diplomas in International Studies and Strategic Studies. He is currently undertaking master's in international relations and World Order at University of Leicester (UK). He has held various appointments in training, command and staff duties.

Mr Patrick Mariru

Mr. Mariru is the Principal Secretary, MoD. He is advocate of the advocate of the High Court of Kenya. He holds a diploma in law, bachelor's degree in law, master's degree in public policy and management and master's degree in divinity. He is currently pursuing PhD in leadership and governance and master's degree in sustainable development. He is a dedicated Public Policy and Management Expert with local, national and international experience of over 15 years in public policy development, community engagement, program development and supporting national government initiatives.

Dr Chris Kiptoo

Dr. Kiptoo is the Principal Secretary at the National Treasury. He holds a PhD in international macroeconomics, finance specialization, master's degree and bachelor's degree in economics from Egerton University. He is in macroeconomics management. He has vast experience in economics having served at CBK, IMF and as the economic adviser to the former prime minister.

Brig (Rtd) John Muiruri
psc(K), ndc(K), EBS

Brig (Rtd) John Muiruri is a former Engineer Brigade Commander. He holds a Bachelors of Art degree in Design and a Masters of Art in International Studies from the University of Nairobi. He has an advance diploma in Civil and Military Engineering from the US Army Engineer School. He is also a registered Ph.D student at the Technical University of Kenya. He served with the UN in former Yugoslavia and also U.S Central Command in Tampa, Florida.

Brig (Rtd) P T Ibeere
EBS 'ndc' (K) 'dsc' (K)

Brig (rtd) P T Ibeere retired from active military service in October 2012 and is currently engaged in personal businesses. He is a graduate of the National Defence College, Kenya and holds a Diploma in International Studies. He also holds a degree in Mechanical Engineering from the University of Nairobi. While in military service, he held various appointments in command and staff duties.

Brig (Rtd) D C Bartonjo
EBS 'ndc' China 'psc' Zam

Brig(Rtd) D C Bartonjo joined KDF in 1981 as a cadet officer and was commissioned on 27 Jul 1982. He is an infantry officer by profession and holds a diploma in military science from Fort Benning GA USA. He held various appointments in command and training including Commanding officer 1KR, Directing Staff DSC Karen Kenya, Commandant School of Infantry, Deputy Brigade Commander 4^{th} Brigade and 2^{nd} Brigade, Sector Commander AMISOM, Deputy Commandant Kenya Military Academy and Commandant Defence Forces Memorial Hospital.

Maj Gen D N N Kamuri
EBS 'nwc' (USA) 'psc' (K)

Maj Gen Kamuri is the Managing Director KOFC having been promoted and appointed on 26th May 2023. He holds a Master of Art degree in International Relations, a BSc degree in Electrical Engineering and a Certificate in Small Arms and Ammo Production. He has also done several other courses including Counter Terrorism and Crisis Management Course. He has served as a Lecturer at Kenya Institute of Mass Communication and War College in USA. He has also served in several command and staff positions in KDF prior to being appointed Managing Director KOFC including the following: Chief of Infrastructure, Chief of RandD, Col Sea Programs and Commanding Officer Technical Services in KNB Mtongwe

Brig Yvonne Kerubo
'ndc' (K) 'psc' (K)

Brig Kirui is the Chief of Legal Services at the Ministry of Defence. She is an advocate of the High Court of Kenya and is the Company Secretary, KOFC. She holds a bachelor's degree in law, master's degree in business administration and is a certified public secretary (CPS).

4. Key Management Team

Ser	Management	Professional/Academic Credentials	Area of responsibility
1.	 **Maj Gen D N N Kamuri**	➢ Master of Art in International Relations. ➢ BSc in Electrical Engineering. ➢ Certificate in Small arms Production.	Managing Director
2.	 **Brig O M Rajab**	➢ Master of Art in International Studies. ➢ Bachelor of Military Science ➢ Diploma in Strategic Studies	Deputy Managing Director KOFC
3.	 **Brig C N Mathenge**	➢ Diploma in Strategic Studies Course ➢ Kenya Polytechnic – Motor Vehicle Tech 1 ➢ Young Officers Electrical Mechanical Engineering Course	Managing Director DFPPF
4.	 **Brig Y Kerubo**	➢ Masters in Business Administration ➢ Bachelor of Laws (LLB) ➢ Diploma in Law (KSL)	Corporate Secretary

5.	 Col R K Kiptoo	➢ Masters of Science in Electrical Engineering Couse System and Design and Technology ➢ Bachelor of Electrical and Electronics Engineering ➢ Post Graduate Diploma in Strategic Studies	General Manager KOFC
6.	 Col C K Aritho	➢ Master of Art in National Security Strategy. ➢ Bachelors of Arts ➢ Diploma in Business Management. ➢ Certified Public Accountant Section 2 ➢ Basic Intelligence Security Course	Human Resource and Administrative Manager
7.	 Lt Col C S Melanyi	➢ Computer Security Awareness Course ➢ Defence Instruction Technique Course ➢ Certificate in Military Science ➢ Young Officer Engineer Course	Maintenance Manager
8.	 Lt Col K K Keitany	➢ Master of Science in Procurement and logistics. ➢ Post Graduate Diploma in Strategic Studies. ➢ Bachelor of Arts. ➢ Senior Leadership, Command and Management Course	Procurement and Stores Manager
9.	 Eng Leo K Kerich	➢ Masters in Chemicals Engineering (ongoing) ➢ Masters in Business Administration ➢ Degree in Chemical and Process Engineering	Production and Quality Assurance Manager

10.	 Maj R M Kararu	➢ Degree in Military Science. ➢ Post Graduate Diploma in Strategic Studies. ➢ Diploma in Military Science. ➢ Diploma in Military Intelligence Course. ➢ Basic Supply Course. ➢ Logistics and Management Course.	Commercial Services Manager
11.	 Maj O O Akuk	➢ Degree in Military Science ➢ Certified Public Accountant Advance Level ➢ Officers Basic Supply Course ➢ Pay Masters Course	Finance Manager
12.	 M N Njogu	➢ Masters in Agricultural Economics (on going) ➢ Bachelor of Science in Agribusiness Management ➢ Diploma in Agriculture Education and Extension ➢ Senior Management Course (Kenya School of Government)	Farm Manager
13.	 Maj Z M Oteri	➢ Degree in Military Strategic and Security Studies	Plant Manager Thika Water Bottling Plant
14.	 Maj E M Mburu	➢ Degree in Military Science (on going) ➢ Diploma in Military Science ➢ Certified Public Accountant Section 2	Plant Manager Moi Airbase Bakery

15.	 Capt S M Ndichu	➢ Bachelor of Science Mechatronics Engineering ➢ Diploma in Business Administration	Plant Manager Gilgil Bakery

5. Chairman's Statement

I have great pleasure in presenting the Annual Report and Audited Accounts for the Kenya Ordnance Factories Corporation (KOFC) for the financial year 2022/2023. KOFC core mandate is to produce Ammunition from basic raw materials for self-sufficiency and reliance. KOFC plays a vital/strategic role being a stable source of ammunition and food to our troops enabling them deliver the punch required in line with KDF vision "One Force, One Mission". In line with the Government's bottom-up Transformation Agenda (BETA), KOFC's participates in Manufacturing and National Food and Nutrition Security Programmes.

KOFC has partially managed to meet Government of Kenya (GOK) security agencies requirements. Shortfall in supplying all orders is attributed to various challenges including aged machines characterized by frequent breakdowns, lack of spares due to obsolete technology and long lead time in acquisition of raw materials from overseas. Retention of qualified and experienced staff has also become a challenge.

The Board of Directors continues to provide strategic and effective leadership in steering KOFC towards achieving its objectives. Every challenge presents an opportunity therefore, this is the time to strengthen our foundations and purpose to meet the expectations of our stakeholders. Taking advantage of our market presence, knowledge workforce, quality products, I am confident that KOFC will be able to meet all security agencies product requirements.

In view of the prevailing circumstances during the period under review, our trading performance and production presented was short of our expectations. We shall continue to accomplish what we set out to do, move quickly and easily to take advantage of new opportunities, venture into unchartered territories, offer quality products and services which has been our destination, continuously introduce new products for security agencies in line with Bottom-Up Economic Model.

Going forward, we will continue to protect our Nation, support our short, medium and long term strategies to emerge stronger and redouble our efforts to grow operations. We intend to achieve these through rebuilding of our capability, modernization and taking advantage of our projected investments in new and emerging technologies. The Board and management will continue to work together to strengthen the Corporation's internal controls and risk management, promote a culture of integrity and strive for the highest ethical business standards. Our concerted efforts will certainly improve product delivery to our customers.

KOFC intends to partner with international stakeholders in modernization and technology transfer in line with the government's strategic decision to revamp KOFC both in acquiring new production line and infrastructure. Acquisition of new ammunition production line is in advance stages in procurement. KOFC will also invest in new capabilities to better connect with our customers, enabling us to provide broader and better options to security agencies while leveraging on technology to reach them on various platforms.

In conclusion, while the Corporation continues to leverage on the strength and breadth of our portfolio to deliver sustainable stakeholders return, we remain cautiously optimistic given bottlenecks that have been highlighted above. Our business model and strategy are resilient to ensure sustainability of the business in the medium to long term. KOFC continues to implement a comprehensive action plan to mitigate costs and tightly manage operations.

On behalf of the Board of Directors, I would like to recognize our customers, consumers, business partners as well as the governments of the respective countries we partner with for your continued support. We also wish to thank our management and employees for their continued agility and resilience despite the challenges. I would also like to sincerely thank my fellow Board members for their counsel, support and dedication throughout the year and for delivering strongly.

I urge my fellow Board Members to work zealously in the best interests of the Corporation.

Thank you.

General F O Ogolla EBS HSC CBS 'NDC' (K) 'PSC' (FRA)

Chairman, Board of Directors

6. Report of the Chief Executive Officer/ MD/ DG

KOFC is a strategic installation that plays a key role in enhancing National Security and contributes significantly to the Government's Bottom-Up business model specifically in Manufacturing, National Food and Nutrition Security. The management has been concentrating in operations in Eldoret, Nairobi, Gilgil and Thika. Efforts are being made to address issues of the Defence Food Production and Processing Factory (DFPPF) to make itself sustaining that does not depend on grants from government.

The Corporation is cognizant of and appreciates efforts by the Government to address ammunition production challenges through acquisition and installation of new production lines which are at an advanced stage in procurement. DFPPF is in its fifth year of operations since its official commissioning in October 2018. However, the DFPPF has so far performed below par as manifested in the sustained lack of profitability mainly due to the high cost raw materials. This shortcoming is being addressed to ensure paradigm shift and robust drive to ingrain business fundamentals. The main objective of these is to underscore the centrality of service delivery to customers, efficient management of finances and judicious employment of assets.

Despite the many challenges now inherent in this operating environment, the Corporation continued to discharge its mandate to manufacture Small Arms Ammunitions, Machinery and Equipment and engaging in other activities normally connected with the incidental to the said object. In the year 2022/2023, the Corporation generated revenue from goods and services amounting to KShs1,153,066,056.79 compared to the previous year 2021/2022 generation of KShs 1,153601,484.00. The funds have gone a long way in funding both budgeted recurrent and capital expenditure.

The National Treasury and Planning through the Ministry of Defence in Financial Year 2022/2023 allocated the Corporation a recurrent and capitation grant of **KShs 135,000,000.00** and **KShs 100,000,000.00** both totalling to **KShs 235,000,000.00**. The recurrent grant of **KShs 135,000,000.00** was to supplement the FY 2022/2023 approved budget and **KShs 100,000,000.00** is for the funding of the ongoing farm mechanization program.

The KOFC management is continuing with the execution of FY 2015/16 – FY 2024/25 revised strategic plan aimed at turning around the operations of the Corporation. To sustain our growth, and continue supporting the Security Agencies requirements, concerted efforts are being put in place to address production issues relating to the existing production line. With our well-equipped workforce coupled with higher capacity production line, KOFC is well positioned to deliver on purpose and continue to fully and competitively provide the security agencies. The management is confident that this plan will assure strategic growth and improved returns and profits.

I conclude by sincerely thanking all those who supported the Corporation in financial year 2022/2023 including the customers, the Government of Kenya represented by the Ministry of

Defence, National Treasury and Planning and all other stake holders. I wish to thank the Board of Directors for their uttermost support during the year. God Bless.

MAJOR GENERAL D N N KAMURI EBS 'nwc' (USA) psc (K)
Managing Director

7. Statement of Performance against Predetermined Objectives for FY 2022/2023

The Kenya Ordnance Factories Corporation (KOFC) has in place a revised Strategic Plan (FY 2015/16 to FY 2024/25) anchored on the vision 2030, the 3rd Medium Term Plan (MTP III) and the Big Four Agenda among other policy documents. The Strategic Plan is aimed at steering the Corporation towards achievement of her Mission and Vision. The plan has the following Strategic/Pillars namely:

i. Operation Excellence.
ii. Customer Service Excellence.
iii. Business Growth.
iv. Good Governance.

From the Strategic themes, the Corporation has identified the below mentioned objectives. These are:

i. Increase capacity in production of Arms and Ammunition.
ii. Increase engineering capacity to support ammunition production and act as a source of revenue.
iii. Attain self-sufficiency in manufacture of apparels for all security agencies.
iv. Attain self-sufficiency in combat supplies for security agencies.
v. Provide a safe environment.
vi. Develop and retain a productive professional workforce.

The table below presents performance against set targets as per the revised Strategic Plan.

Objective 1. Increase Capacity in Production of Arms and Ammunition

Strategy	Activities	Period		Performance Indicator	Actor
		2015/16-2018/19	2019/20 – 2022/2023		
Enhancement of Production Capacity	Removal of Production Chock Point	Allocated Funds	Acquired Ballistic Analyzer and Gauging Machine	Two machines acquired	KOFC
	Upgrade and Modernization of the Production Lines	Conducted In-depth Analysis	Acquired case gauging machine	One machine acquired	KOFC
	Manufacture of small arms		Allocation of funds	Number of Arms Produced	KOFC
	Maintain a two year Buffer Stock of Raw Materials	Allocated funds and procured Brass, Primers, Powder and Copper Clad	procured Brass, Primers, Powder and Copper Clad	Increased stock levels	KOFC

Objective 2.Increase Engineering Capacity to support Ammunition Production and act as a source of income.

Strategy	Activities	Period		Performance Indicator	Actor
		2015/16-2018/19	2019/20 – 2022/2023		
Expand the General Engineering Capability.	Production of tools and spares to support ammo production	Allocated Funds Acquired Spectrophoto meter		One machines acquired	KOFC
	Modernization of Machines		Procurement of Profile Projector ongoing	Acquisition of one machine	KOFC
	Assembly, repair and rehabilitation of small arms	Produced weapon spares	Rehabilitated small arms	Assorted weapons repaired	KOFC
	Fabrication of General spare parts	Produced Agricultural and Industrial spares	Produced Agricultural and Industrial spares	Several numbers of spares produced	KOFC
	Establishment of Welding and fabrication shop	Fabricated soldier boxes and beds Acquired portable heavy duty machines	Fabricated soldier boxes and beds	Numbers of Soldier boxes, beds and boxes	KOFC
	Fabrication of DEFKITCH (K) 2012	Allocated funds and improved DEFKITCH – (K) 2012	Acquired Water Jet, Bending, Pressing and Polishing of machines	Four machines acquired	KOFC

Objective 3. Attain self-sufficiency in manufacture of all Security Agencies.

Strategy	Activities	Period		Performance Indicator	Actor
		2015/16-2018/19	2019/20 – 2022/2023		
Introduction of Apparel Production Line	Establishment of Apparel Production Line	-	Sourcing of funds	Garments produced	KOFC

Objective 4.Attain self-sufficiency in Combat Supplies (Ration) for Security Agencies

Strategy	Activities	Period		Performance Indicator	Actor
		2015/16-2018/19	2019/20 – 2022/2023		
Introduction and enhancement of Ration Production	Bakery and Confectionaries	Feasibility done Constructed Hanger at MAB Acquired Mixer, Moulder, Divider, Weighing Machines, ovens and prover	Full Production	Assorted Bread products produced	KOFC
	Maize Milling	Established second line Produced KDF maize flour	Produced KDF maize flour	KDF maize flour produced	KOFC
	Animal Feed Production	Produced animal feeds	Produced animal feeds	Animal feeds produced	KOFC
	Water Bottling	Acquired labelling machine Produced bottled water	Produced bottled water	Quantity of bottled water produced	KOFC
	Dehydration of Vegetables and Processing of fruits	Constructed Hanger Acquired of washing, blanching, drying, peeling, dicing, cutting, bin dryers, and packing Machines Dehydrated assorted vegetables	Dehydrated assorted vegetables	Quantity of Assorted vegetables	KOFC

8. Corporate Governance Statement

The Kenya Ordnance Factories Corporation Board of Directors embrace principles of good corporate governance in steering the Corporation to effectively achieve its mandate for sustainable growth in Government and its stakeholder's expectations. As a Semi-Autonomous Government Agency (SAGA) under the Ministry of Defence, the Corporation remains steadfast in complying with statutory and regulatory requirements as outlined in the Constitution and the State Corporations Act Governance and other applicable regulations.

Besides complying with the Code, the Board has committed to embed internal rules of engagement to support corporate governance. These internal guidelines are constituted in the Code of Conduct and Ethics to which every Director and employee attest their adherence.

Board of Directors

The Board is collectively responsible for the overall direction of the Corporation with oversight and review of the management, administration and overall governance. The Board exercises its oversight role by setting appropriate business strategy and overseeing delivery against the set objectives. The Board currently consists of nine (9) directors, one (1) Managing Director and including the Chairman, of whom three (3) are independent directors. Committee guided by the Board Appointment Guidelines duly approved by the Board. The Chief Executive Officer is by appointments by the Defence Council and their terms are dictated by the same.

Board Operations

The Board has in place an annual programme that sets out the Board activities for the year. This enables the Board to have a detailed review of the Corporation's operation's and strategy, approve business plans, budgets and financial statements. The Board Chairman, in conjunction with the Managing Director, sets the agenda for each meeting. The Board receives all information relevant to the discharge of its obligations in accurate and timely manner enabling it to maintain effective control over strategic, financial, operational and compliance issues. As provided in the Board Charter, the Board is entitled to seek independent professional advice at the Corporation's expense on any matter connected with the discharge of its responsibilities.

Board Charter

The Board has adopted a Board Charter that provides a framework for the effective operation of the Board, which sets out the: Board's roles, composition and responsibilities; Relationship and interaction between the Board and Management; and Authority delegated by the Board to Management and Committees.

Board of Directors Responsibilities

The Board is responsible for ensuring that the business is financially viable and properly managed so as to protect and enhance the Corporation's interest over time. To achieve continued prosperity for the Corporation, the Board exercises leadership, enterprise, integrity and good judgement and shall always act in the best interest of the Corporation. The following are the roles and responsibilities of the Board:

a. Provide effective leadership and collaborate with the Management in articulating the institution's values, vision, mission and strategies and developing the strategic plan and ordering strategic priorities of the Corporation that are sustainable.

b. Develop an organizational structure to support the achievement of strategic objectives; monitor the operational performance and establish policies and processes that ensure the integrity of the Corporation internal controls and risk management.

c. Review and approve the business plans and annual budget proposed by the Executive Management and evaluate the outcomes thereof.

d. Establish such Committees, Policies and Procedures that will facilitate effective discharge of the Board's fiduciary and leadership functions.

e. Establish and oversee the Corporation corporate governance framework that promotes standards of ethical behaviour.

f. Ensure the Corporation's compliance with all applicable laws, regulations, governance codes, guidelines and regulations and establish systems to effectively monitor and control compliance across the Corporation.

g. Ensure that systems and procedures are in place for the Corporation to run effectively and efficiently.

h. Establish appropriate staffing and remuneration policies for all employees. Act in the best interest of the Corporation and its business taking into consideration the interest of the stakeholders.

i. Ensure that the Corporation is, and is seen to be, a responsible corporate citizen by having regard to not only the financial aspects of the business of the Corporation, but also the impact the business operations have on the environment and the society within which it operates.

Board Meetings

The Board has a schedule of its meetings and the agenda for each Board meeting is prepared and circulated to members at least seven (7) days in advance. Board meetings are held every quarter and in exceptional circumstances as dictated by requirements of its operations.

Board Skills and Diversity

The Corporation seeks to have a Board that has a diverse mix of individuals with relevant attributes, skills, knowledge and experience. The Board has the appropriate mix of skills, knowledge and experience to deal with current and emerging issues and effectively guide the management in attainment of its strategic objectives.

The Board promotes diversity and encourages initiatives to improve gender parity in management.

Board Induction and Development

All newly engaged Directors receive a comprehensive induction programme to acquaint them with their responsibilities as well as keep them abreast of the Corporation's strategy and operations. The induction program consists of detailed presentations and briefings from the Executive Management and the Company Secretary on Corporation operations.

The Board members are required to undergo regular training and bench marking to enable them to discharge their responsibilities effectively. Members receive regular briefings from the executive management on developments in the media industry, both locally and globally. The Board is also apprised of regulatory changes that directly impact on the operations of the Corporation.

Board Evaluation

In line with the provisions of the Mwongozo Code, the Board reviews its performance and that of its Committees, and the Directors, the Chairman and Company Secretary, on an annual basis. The evaluation is conducted by each Director completing a Board Evaluation Form which is designed to obtain feedback on the Board's performance in key thematic areas. The Evaluation also seeks to identify development opportunities and areas of improvement. Results are collated confidentially by the Company Secretary and reviewed by the Chairman. The evaluation ensures that the Board continues to be effective. The last evaluation observed that Board members have a good understanding of the business and receive the information they need to inform decisions.

Board Independence and Conflicts of Interest

The Board comprises of seven (9) non-executive directors, of whom three (3) are independent. The Board of Directors are free of any business or other relationship that could materially interfere with, or reasonably be perceived to materially interfere with, the directors' capacity to bring an independent judgement to bear on issues before the Board and to act in the best interest of the Corporation. The directors are obligated to fully disclose to the Board any real or potential conflict of interest, which comes to the directors' attention, whether direct or indirect. All business transactions with all parties, directors or their related parties are carried out at arm's length. Directors are required to give advance notice of any conflict issues to the Chairman or Company Secretary. The Board maintains a Conflict of Interest register and this is tabled as the first agenda item of all Board meetings. Directors are excluded from the quorum and vote in respect of any matters in which they have an Interest.

9. Management Discussion and Analysis

Core Mandate of the Corporation

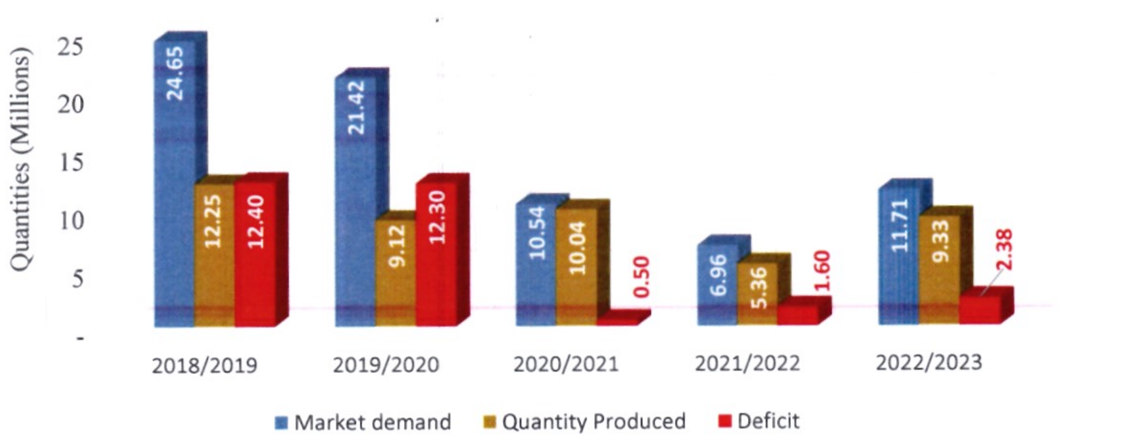
Despite the many challenges inherent in this operating environment, the Corporation continued to discharge its mandate to manufacture Military Hardware, Machinery and Equipment and engaging in other activities normally connected with the incidental to the said object.

Operation

Ammunition Production installed lines were commissioned in 1996 and projected to produce 20 million rounds in a single shift which translated to a production output of quantity 16 million at 80% efficiency. Ammunition production machines have been characterized by frequent breakdowns caused by old age and obsolescence which hampered prompt repairs. Mitigating measures towards addressing these challenges include establishment of new ammunition production lines with high capacities which is currently at an advanced stage.

Over the last five years, production has been decreasing as customer's demand increases. The table below illustrates how the production has been going down over a period of time.

TRENDS FOR THE LAST FIVE YEARS



Financial Performance

The Corporation continues to undertake vital production activities as mandated. Its overall financial performance to date is nonetheless still weighed down by challenges related to diminished ammunition production levels from existing lines and shortage of corresponding production of raw materials and tools. Efforts to address the limited production capacity are at an advanced stage and this will finally be achieved by the installation of new production lines. Meanwhile, procurement of the Case Gauging Machine and implementation of an efficient raw materials procurement and delivery contract will further enhance productivity. Likewise, improved farm production is being addressed through funding of the Mechanization Programme.

Food Processing Factory financial status is fairly weak but its activities have been streamlined. Tabulated below is the Corporation Financial Performance for the past five years' period:

Years (Audited)				
2021/2022	**2020/2021**	**2019/2020**	**2018/2019**	**2017/2018**
172,241,730	132,778,633	(191,632,846)	(515,535,062)	258,698,444
Profit	Profit	Loss	Loss	Loss

Revenue

Revenue generated over the past five years is as tabulated below:

	2021/2022	2020/2021	2019/2020	2018/2019	2017/2018
Ammo	675,686,976	604,021,182	695,835,135	590,915,553	725,760,902
Farm	209,138,946	148,383,807	77,839,634	97,413,266	103,200,106
Others	259,736,098	393,895,303	260,456,244	337,179,757	234,301,130

KShs 1,397,633,159 was generated during the year (FY 2022/2023) under review against a set target of **Kshs 1,607,793,829** leading to a variance of **Kshs 210,160,670** as detailed below:

Description	Original budget	Actual on comparable basis	Performance difference
Revenue	**Kshs**	**Kshs**	**Kshs**
Sale of ammunition	818,577,150	675,686,976	142,890,174
Bakery sales	138,939,220	150,149,044	(11,209,824)
Farm and Milling sales	149,884,137	217,642,983	(67,758,846)
Bottled water sales	79,056,661	62,452,617	16,604,044
DefKitch and GED sales	8,526,229	2,973,262	5,552,967
Piped water sales	5,206,850	7,038,434	(1,831,584)
Finance income	12,000,000	9,567,102	2,432,898
Disposal of general stores	603,582	479,816	123,766
DFPPF sales	160,000,000	36,642,925	123,357,075
Grant	235,000,000	235,000,000	-
Total income	**1,607,793,829**	**1,397,633,159**	**210,160,670**

(a) **Staff Welfare and Administrative Activities**

The administration activities involve the provision of a conducive and enabling environment for working.

(b) **Major Risks Facing the Corporation**

a. Technology changes.
b. Non availability of raw materials and Long Lead.
c. Mindset on locally produced goods.
d. Erratic Weather (Climate Change).

(c) Performance Contract Implementation Financial Year 2022/2023

The purpose of the Performance Contracts (PC) is to provide an objective assessment of results realized and challenges experienced by the Corporation that impair performance. The objectives of the Performance Contract (PC) were drawn from the Kenya Ordnance Factories Corporation Strategic Plan and anchored on the Kenya Vision 2030, the Medium Term Plan (MTP) II) and the Sector Performance Standards (SPS). The Corporations PC FY 2022/2023 was negotiated with the Ministry of Defence, Board of Directors and the Managing Director cascaded it to all relevant implementation departments of the Corporation

(d) Capital Projects

Ammunition Production installed capacity lines were commissioned way back in mid-80's and projected to produce 20 million rounds in a single shift which translated to a production output of quantity 16 million at 80% efficiency. Ammunition Production Machines have been characterized by frequent breakdowns caused by old age and obsolescence which hampered prompt repairs. Mitigating measures towards addressing these challenges include establishment of modern ammunition production lines with high capacities which is currently at an advanced stage. Acquisition and operationalization of new production lines will in the long run restore KOFC to financial stability and prosperity.

In order to enhance farm production and minimize outsourcing of farm services, the Corporation has continued to invest in farm machinery and equipment. During the year under review, the Ministry of Defence allocated Ksh 100M for KOFC farm mechanization.

f. KOFC Compliance with Statutory Requirements

The Corporation complied with all mandatory statutory requirements from remittance of statutory deductions within the set time line to holding of Board meetings.

g. Material arrears in statutory and other financial obligations

As at the close of the financial year, the Corporation did not have any material statutory arrears.

10. Environmental and Sustainability Reporting

i. Sustainability Strategy and Profile

The re-organization of KOFC operations is aimed at re-aligning its strategic plan to meet its expanded mandate as set out in Legal Notice No. 2 (Amendment Order) of 19th December 2020 and the National Security Industrialization Policy Implementation Strategy. The revised Legal Notice mandates the Corporation to manufacture hardware machinery and equipment, produce defence articles, manufacture apparels, assemble and manufacture motor vehicles, construct roads, water pans, buildings and other structures and carry out Food Processing. Towards this end, revision of Strategic Plan, development of Implementation Matrix and determination of resource requirements is clearly set out.

The proposed implementation in the short term aims at increasing ammunition production capacity to meet the National security requirement and attain new capability and flexibility to meet the emerging requirements due to change of weapon choice. Critical also is the need to complete Phase II and III of Food Processing Factory in-order to supply packaged MREs as required within the stipulated timelines. This will in-turn be a milestone towards achieving self-reliance in defense combat supplies to KDF and other Security Agencies, both nationally and in the entire region as enshrined in East Africa Working Group (EAWG) on cooperation on shared resources. The outcome of such targeted investments will be a secure nation and a self-reliant defense. The key beneficiaries of this project are the Citizens of Kenya, Security Agencies and the Region at large.

ii. Environment Performance

Annually, the Corporation plants over quantity 30,000 trees both for Corporate Social Responsibility and planting in its farm blocks. In FY 2022/23, KOFC planted quantity 35000 seedlings of various species of indigenous trees. This has contributed to the current tree cover of quantity 427 acres, which translates to about 5 % of the total forest cover.

The efforts have faced many challenges mostly attributed to climate change and acceptability by the neighbouring communities who tend to uproot most of the seedlings planted. However, the Corporation has continued to engage the locals in the tree planting activities to improve on their acceptability to the activities.

The Corporation's Waste Management Policy deals with issues relating to waste on land, defining all aspects of waste management through industrial processing activities aimed at producing useful and safe products through; reducing, reusing, recycling, or composting waste; by doing this, it will increase the value of waste over time to the Kenyan economy.

Waste is a resource that can be managed to achieve economic, social and environmental benefits. Addressing the waste management challenge effectively at KOFC is critical to delivering on Kenya's constitutional right to a clean and healthy environment for all, advancing the circular economy to create green jobs and wealth from the waste sector, and advancing the nation's sustainable development goals.

Types of Solid Waste Management at KOFC

a. Hazardous wastes.

b. Industrial wastes.

c. Bio-medical wastes.

Environmental benefits of proper waste management:

a. Proper waste removal helps improve air and water quality as well as reduces greenhouse gas emissions.

b. It helps in minimising the extraction of resources along with reducing pollution and energy consumption which is associated with manufacturing new materials.
c. Promotes health and sanitation.
d. Reduces pest infestation.
e. Protects you from biohazards.
f. Improves community health.
g. Protects the environment.
h. Ensures physical safety.
i. Adds to waste energy.
j. Earns money.

Sustainable waste management is also fundamental to delivery of each of the government's "Big Four" national priorities. The main advantage of sustainable waste management is to lessen the impact on the environment, by improving air and water quality and contributing to the reduction of greenhouse gas emissions. Besides, reducing food waste also helps reduce the heavy environmental cost of producing more.

Most sustainable waste management;
Recycling saves energy, helps keep materials out of landfills and incinerators, and provides raw materials for the production of new products. When waste cannot be prevented, recycling is the next best option. Recycling is more than extending the life of landfills.

iii. Employee Welfare:

KOFC Hiring Process and Equity
The Corporations is fully aware that its efficiency depends on the quality of employees it engages. As stipulated under KOFC Staff Terms and Conditions of Service Manual, it is the Corporation's policy to attract and recruit candidates qualified in terms of academic, have the required experience/skills or who can be trained for effective work performance to achieve the Corporation's objectives.

KOFC is an equal opportunity employer and its recruitment does not discriminate on the basis of gender, age, race, and ethnicity or entertain any other form of discrimination. KOFC fully ensures compliance with the provisions of article 232 (h) and (i) of the COK, 2010.

All appointments are made with the approval of the Managing Director or Board of Directors as the case may be, and within the approved Staff Establishment

KOFC specific polices guideline in the hiring process are as follows:

a. The Corporation will strive to recruit and select the best-qualified candidates to support its vision and mission.

b. Equal opportunities shall be provided for all persons throughout the Corporation in recruitment, appointment, promotion, payment, training, and other employment practices without discrimination against people based on race ethnic, gender, disability, national origin, colour, religion, marital status, or political affiliation.

c. Employees shall be correctly placed on the occupations that match their skills and abilities while taking cognizance of special needs.

d. Recruitment of Employees shall be done as per the recruitment policy and procedures for all cadres of staff. Equity shall be exercised at all times.

e. The recruitment and selection process should not take more than six (6) months.

f. Appointments in all cases are made in accordance with the existing Job Descriptions and specifications for various cadres of staff in their respective fields of employment.

Stakeholder engagements

In the hiring process, the Corporation ensures stakeholder engagement through media advertisement of vacant positions and selection to employment.

Skills Improvement and Career Management

The Corporation recognizes the need for training and development of all its employees. The Corporation therefore offers training opportunities to all deserving staff in order to equip them with the necessary skills to improve performance and career progression.

Training and skill improvement programs are geared towards addressing identified staff performance gaps and ensure continued supply of relevant knowledge and skills to the Corporation.

Training Needs Assessment (TNA) is conducted on annual basis to determine if a training need exists and to identify the specific training required to fill the gap. The training requirements and programmes are factored in the annual budget.

Staff Performance Appraisal is a critical component of the human resource management function in the Corporation. The overall objective of the appraisal system is to manage and improve performance by enabling a higher level of staff participation and involvement in planning, delivery and evaluation of work performance.

The Staff Performance Appraisal is an annual exercise in the Corporation and assists the management in making critical decision on staff reward, promotion, deployment and training.

Safety and Compliance with Occupational Safety and Health Act 2007

Kenya Ordnance Factories Corporation (KOFC) is committed to the goal of providing and maintaining a healthy and safe working environment, with a view to continuous improvement. This goal is only achievable by adherence to established objectives striving to exceed all obligations under applicable legislation, and by fostering an enthusiastic commitment to health, safety and the environment within KOFC personnel, contractors and visitors. In particular:

a. Management, working in cooperation with the Health and Safety Committee, will strive to take all reasonable steps to reduce workplace hazards to as low as reasonably achievable.

b. Supervisors and managers are held accountable for the health and safety of all employees under their supervision. This includes responsibility for applicable training and instruction, appropriate follow-up on reported health and safety concerns, and implementation of recommended corrective action. This accountability is integrated into the performance appraisal system.

c. Supervisors, workers and visitors are expected to perform their duties and responsibilities in a safe and healthy manner, and are accountable for the health and safety of themselves and others.

d. KOFC is committed to providing all necessary training and instruction to ensure that appropriate work practices are followed on the job, and to promote their use off the job.

e. If necessary, KOFC will take disciplinary action where individuals fail to work in a healthy and safe manner, or do not comply with applicable legislation or corporate policies and procedures. Health, safety, the environment and loss control in the workplace are everyone's responsibility.

KOFC expects that everyone will join in our efforts to provide a healthy and safe working environment on a continuous day to day basis. Only through the dedication and efforts of all individuals can KOFC succeed in providing a healthy and safe working environment.

iv. Market Place Practice

a. Responsible Competition Practice

Kenya Ordnance Factories Corporation (KOFC) has put efforts towards the following in their day to day running of business:

(i) Anticorruption Policy: KOFC ensures that it systematically and comprehensively rewards for more responsible practices in business and penalizes for the converse.

(ii) Apolitical involvement: KOFC beings a security installation and does not involve itself to politics; it serves the government of the day.

(iii) Fair competition and respect for competitors: KOFC has time and again maintained responsible ethics with their competitors by achieving competitive advantages through superior performance and not through unethical or illegal business practices. It insists on transparency other than making improper agreements with or colluding with competitors. To ensure that it has the competitive edge, it capitalizes on supply of quality products, timely delivery and keeping customer focus as the driving power.

b. **Responsible Supply Chain and Supplier Relations**

Kenya Ordnance Factories Corporation Procurement Department processes are fair, equitable, transparent, competitive and cost- effective. It starts with budgeting and ends when the supplier is paid. The procurement processes are governed by Public Procurement and Asset Disposal Act, 2015 and Public Procurement and Asset Disposal Regulation 2020. The stages are:

a. Budgeting.
b. Purchase Plan.
c. Identification of need, Specifications and Requisition.
d. Requisition Authorization.
e. Sourcing.
f. Tender Opening.
g. Tender Evaluation.
h. Contract Award.
i. Receipt and Acceptance, Quality Control, Recording and Storage.
k. Payment of Suppliers.

To build a cordial supplier relationship, the department has;

a Effective Communication Channels - The department has effective communication channels where suppliers can be engaged to air out their concerns and feedback given promptly e.g. Office Emails and Telephone.

b. Respect – The department demonstrate integrity and appreciate them for the value-add they provide to the organization. This helps to build trust and with that trust comes endless possibilities to increase performance through innovation and problem solving.

c. Openness and fairness in procurement processes. This includes sharing information including tender results. Suppliers are notifying on the tender results immediately the tendering process is finalized and demonstrate willingness to work together to achieve the objectives of the agreement.

d. Payment are done on first come first paid basis.

c. **Responsible Marketing and Advertisement**

KOFC has been practicing transparency, avoid false comparison, protection of consumer data and privacy, committing to sustainability and human rights, maximizing benefits and minimizing risks, no exaggeration of product attributes or price, responding meaningfully to consumer concerns, avoiding false unverified claims and being diligent in enforcing policies to maintain ethical marketing practices.

d. **Product Stewardship**

KOFC have put the following measures to safeguard consumer rights and interests:

a. Right to safety: The Corporation ensures that the products sold to customers are of high quality and meet up the set standards.

b. Right to choose: KOFC encourages its clients to be assured of satisfactory quality and service at a fair price.

c. Right to seek redress: KOFC provides ways for customers to air their complaints through the customer care office, suggestion boxes and a customer care remark book, through this their complains are adequately addressed.

d. Consumer Protection Act: KOFC adheres to Customer Protection Act to ensure good services and relationship between the customer and the corporation.

e. Right to consumer education: KOFC educates its consumers of its products and services to better equip them with the knowledge to ensure they are sufficiently informed.

v. Corporate Responsibility/Community Engagements

KOFC commitment to its stakeholders is to improve the quality of lives of the community surrounding its installations through Corporate Social Responsibilities. We take our social and environmental responsibility seriously and support the communities and the environment within which we do our business. The Board and Management believe that Corporate Social Responsibility (CSR) programmes should be relevant, impactful, and sustainable. The Board takes overall responsibility for the continued development and implementation of appropriate social and environmental policies of the Corporation. Our focus is on empowerment of youth women and persons with disabilities. The Corporation reaches out to communities along the waterline by connecting them to the pipeline to access safe and cleaner water. During the year under review, the Corporation was involved in one CSR activity, Environmental Conservation. The Corporation relies on the environment extensively for its business, including timber for packaging of Ammo. Besides, the Corporation is involved in tree-planting within it vast land.

11. Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended June 30, 2023 which show the state of the Kenya Ordnance Factories Corporation Affairs.

i Principal Activities

The Corporation principle activities are to:

a. Manufacture of military hardware, machinery and equipment.

b. Produce defense articles.

c. Manufacture apparels.

d. Assemble and manufacture motor vehicles.

e. Construct roads, water pans, buildings and other structures and carry out food processing.

The Corporation also engages in other activities normally connected with and incidental to the object stated above as the Board may, with approval of the president determine.

ii Results

The profit for the year was **Ksh. 122,248,511.00**.

iii Directors

The members of the Board of Directors who served during the year are shown at page vii to viii. During the year, 5 directors retired and were replaced.

iv Auditors

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

By the Order of the Board.

Y Kerubo
Brig

Secretary to the Board .... Sign 26/09/2023 Date

12. Statement of Directors Responsibilities

Section 81 of the Public Finance Management Act, 2012 and Section 14 of the State Corporations Act requires the Directors to prepare financial statements in respect of Kenya Ordnance Factories Corporation which gives a true and a fair view of the state of affairs of the Corporation as at the end of the financial year and of the operating results of the year. They are also required to ensure that the corporation maintains proper accounting records which disclose with reasonable accuracy at any time the financial position of the Corporation. They are also responsible for safeguarding the assets of the Corporation.

The Directors are responsible for the preparation and presentation of the State Corporations financial statements which give a true and fair view of the state of affairs of the Corporation as at the end of the financial year 2022/23 ended on June 30, 2023. 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 discloses with reasonable accuracy at any time, the financial position of the Corporation.

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 Corporation.

v Selecting and applying appropriate accounting policies.

vi Making accounting estimates that are reasonable in the circumstances.

The directors accept responsibility for the Corporation's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgment and estimates, in conformity with International Financial Reporting Standard (IFRS) and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Corporation's financial statements give a true and fair view of the state of the Corporations transactions during the financial year ended June 30, 2023, and the Corporation financial position as at that date. The directors further confirm the completeness of the accounting records maintained for the Corporation which have been relied upon in the preparation of the Corporation's financial statements as well as adequacy of the systems of internal financial control.

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

Approval of the financial statements

The Kenya Ordnance Factories Corporation Financial Statements were approved by the Board of Directors on...26...Sep...2023 and signed on its behalf by:

....

Gen F O Ogolla
Chairman of the Board

....

Maj Gen D N N Kamuri
Managing Director

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

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Anniversary Towers
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P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA ORDNANCE FACTORIES CORPORATION FOR THE YEAR ENDED 30 JUNE, 2023

PREAMBLE

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

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

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Ordnance Factories Corporation set out on pages 1 to 44, which comprise of the statement of financial position as at 30 June, 2023 and the statement of profit or loss and other 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 Ordnance Factories Corporation as at 30 June, 2023, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the State Corporations Act, Cap 446.

Basis for Qualified Opinion

1. Long Outstanding Payables

The statement of financial position reflects prepayments of Kshs.277,354,628 as disclosed in Note 25(b) to the financial statements. The relates to prepayments made by the Ministry of Defence for product purchases which have remained unsettled since 2011/2012 financial year. Although Management explained that the Corporation and the Ministry of Defence reached an agreement for the Corporation to issue a credit note for the outstanding amount, the balance was still outstanding as at 30 June, 2023.

No explanation was provided for failure to treat the outstanding payables as first charge in the subsequent years.

2. Long Outstanding Value Added Tax Expenses

The statement of financial position reflects a balance of Kshs.944,971,508 under trade and other receivables which, as disclosed in Note 19 to the financial statements, includes an amount of Kshs.111,957,288 in respect of claimable Value Added Tax (VAT). As previously reported, the claimable VAT of Kshs.111,957,288 includes an amount of Kshs.68,861,381 indicated as due from the Ministry of Defence and Kshs.43,095,907 indicated as VAT erroneously withheld on ammo sales which has been long outstanding.

Further, the trade and other receivables balance of Kshs.944,971,508 also includes a tax recoverable balance of Kshs.12,859,976 in respect of VAT refund due from the Kenya Revenue Authority (KRA), which has been outstanding for more than three (3) years.

In the circumstances, the existence and recoverability of the long outstanding debt totalling Kshs.124,817,264 could not be confirmed.

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

Key Audit Matters

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

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, I confirm that, nothing 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

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

Failure to Meet the Board Meeting Thresholds

Review of the Board of Directors records revealed that, the Management Board established Strategic Committee, Finance and General-Purpose Committee and Audit and Risk Committee to facilitate the smooth running of the corporation. However, the Board Committee documents provided for audit revealed that the Board held only one full Board meetings on 22 June, 2023 and two Board Committees meetings 18 January, 2023 and 13 June 2023 during the year under review.

Failure by the Board of Management and the Board Committees to hold meetings as per guidelines is a contravention of the requirements of Circular Ref. No. OP/CAB.9/1A of 11 March, 2020 and may erode the governance responsibility entrusted to those charged with governance.

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal controls in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal controls would not necessarily disclose all matters in the internal controls 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 controls 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 controls.

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

- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation'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 Corporation to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Corporation to express an opinion on the financial statements.

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

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

FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

16 April, 2024

14. **Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2023.**

Description	Note	2022-2023	2021-2022
		Kshs	Kshs
Revenues			
Revenue from Sales	6	675,686,976	604,021,182
Cost of sales	7	(587,981,570)	(788,866,022)
Gross profit		**87,705,406**	**(184,844,840)**
Other income			
Grants from the national government	8	507,299,410	494,409,510
Finance income	9	9,567,102	7,301,192
Other income	10	468,875,045	609,666,961
Foreign exchange gains / (losses)	11	(35,990,865)	
Total revenues		**1,037,456,098**	**926,532,822**
Operating expenses			
Administration costs	12	(889,999,166)	(752,186,647)
Selling and distribution costs	13	(6,040,202)	
Other Operating Expenses			(812,000)
Total operating expenses		**(896,039,368)**	**(752,998,647)**
Profit/(loss) before taxation		141,416,730	173,534,175
Income tax expense/(credit)	15	(19,168,219)	(1,292,445)
Profit/(loss) after taxation		**122,248,511**	**172,241,730**

Statement of Financial Position as at 30 June 2023

Description	Note	*2022-2023*	*2021-2022*
		Kshs	Kshs
Assets			
Non-Current Assets			
Property, Plant and Equipment	16	9,775,369,681.75	9,805,081,633.00
Total Non-Current Assets		**9,775,369,681.75**	**9,805,081,633.00**
Current Assets			
Inventories	17	1,554,666,810.00	995,757,481.00
Opening Inventory Adjustment			495,646,645.00
Biological Assets	18	222,903,971.95	231,408,009.00
Trade and other Receivables	19	944,971,508.16	769,787,352.00
Short-Term Deposits	20	128,120,176.65	335,500,000.00
Bank and Cash Balances	21	86,689,406.44	66,126,690.00
Total Current Assets		**2,937,351,873.20**	**2,894,226,177.00**
Total assets		**12,712,721,554.95**	**12,699,307,810.00**
Equity and Liabilities			
Capital and Reserves			
Government Investment	22	5,369,026,514.00	5,369,026,514.00
Revaluation Reserve	23	6,975,261,655.00	6,975,261,655.00
Retained Earnings		(662,930,755.63)	(115,952,557.00)
Capital And Reserves		**11,681,357,413.37**	**12,228,335,612.00**
Non-Current Liabilities			
Deferred Income	24	243,295,161.00	85,489,354.00
Tax Payable	25(a)	109,583,229.00	
Prepayments	25(b)	277,354,628.00	
Total Non-Current Liabilities		**630,233,018.00**	**85,489,354.00**
Current Liability			
Trade and Other Payables	25	319,061,598.38	321,146,472.00
Current Tax Payable	26	82,069,525.51	64,336,372.00
Total Current Liabilities		**401,131,123.89**	**385,482,844.00**
		u	
Total Equity and Liabilities		**12,712,721,555.26**	**12,699,307,810.00**

The financial statements were approved by the Board on 26 Sep 2023 and signed on its behalf by:

MAJ GEN D N KAMURI	CAPT A K GAITHO	GEN F O OGOLLA
Managing Director	**Chief Financial Accountant**	**Chairman of the Board**
	ICPAK M/NO:27710	

15. **Statement of Changes in Equity for the year ended 30 June 2023**

Description	Note	Government investment	Revaluation Reserve	Revenue Reserve	Capital Grant	Total
As at July 1, 2021		**5,217,570,746**	**7,663,988,513**	**(838,220,619)**		**12,043,338,640**
Net profit for the year				172,241,730		**172,241,730**
Adjustment for capitation		51,455,768				**51,455,768**
Capitation/conditional grant		100,000,000				**100,000,000**
Adjustment for revaluation of buildings			(17,428,951)			**(17,428,951)**
Adjustment for revaluation of m/vehicle			10,019,652			**10,019,652**
Adjustment for land revaluation			(681,318,000)			**(681,318,000)**
Adjustment for opening balance			441			**441**
Adjustment for understated inventories				550,026,332		**550,026,332**
As of June 30, 2022		**5,369,026,514**	**6,975,261,655**	**(115,952,557)**		**12,228,335,612**
As at July 1, 2022		**5,369,026,514**	**6,975,261,655**	**(115,952,557)**		**12,228,335,612**
Deferred income brought forward					85,489,354	**85,489,354**
Adjustment for opening inventory	17(a)			(495,646,645)		**(495,646,645)**
Adjustment for cash omitted	20(a)			8,000,000		**8,000,000**
Adjustment for deferred income b/f	24(a)			(80,090,198)	80,090,198	-
Deferred income transfer to revenue reserve	24			22,284,391	(22,284,391)	-
Adjustment for tax liability	25(a)			(125,081,820)		**(125,081,820)**
Adjustment for Creditors	25(c)			1,307,562		**1,307,562**
Capital grants received during the year					100,000,000	**100,000,000**
Profit for the year				122,248,511		**122,248,511**
At June 30, 2023		**5,369,026,514**	**6,975,261,655**	**(662,930,756)**	**243,295,161**	**11,924,652,574**

16. Statement of Cash Flows for the year ended 30 June 2023

Description	Note	2022-2023	2021-2022
		Kshs	Kshs
Cash flows from operating activities			
Cash generated from/(used in) operations	28	(184,115,657)	(10,084,861)
Interest received	9	(9,567,102)	(7,301,192)
Taxation paid	29	(16,933,656)	1,292,445
Net cash generated from/(used in) operating activities		**(210,616,415)**	**(16,093,608)**
Cash flows from investing activities			
Purchase of property, plant and equipment	16	(93,767,794)	(105,832,376)
Interest received	9	9,567,102	7,301,192
Net cash generated from/(used in) investing activities		**(84,200,692)**	**(98,531,184)**
Cash flows from financing activities			
Government investment		100,000,000	100,000,000
Previous year adjustment			51,455,768
Net cash generated from/(used in) financing activities		**100,000,000**	**151,455,768**
Increase/(decrease) in cash and cash equivalents		**(194,817,107)**	**36,830,976**
Cash and cash equivalents at beginning of year		**401,626,690**	**364,795,677**
Adjustment for opening Fixed Deposit	20(a)	**8,000,000**	
Cash and cash equivalents at end of the year		**214,809,583**	**401,626,690**

17. Statement of Comparison of Budget and Actual amounts for the period ended 30 June 2023

Description	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% of utilization	Remark
	a	b	c = a + b	d	e= c - d	f=d/c%	
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs	%	
Sale of Ammunition	818,577,150		818,577,150	675,686,976	142,890,174	83%	Reduction in production capacity
Bakery Sales	138,939,220		138,939,220	150,149,044	(11,209,824)	108%	
Farm and Milling Sales	149,884,137		149,884,137	217,642,983	(67,758,846)	145%	Shortage leading to high demand
Bottled Water Sales	79,056,661		79,056,661	62,452,617	16,604,044	79%	Reduction in demand
DEFKITCH and GED Sales	8,526,229		8,526,229	2,973,262	5,552,967	35%	Reduction in demand
Piped Water Sales	5,206,850		5,206,850	7,038,434	(1,831,584)	135%	Increase in demand
Finance Income	12,000,000		12,000,000	9,567,102	2,432,898	80%	Increase in debtors tying up the funds
Disposal of General Stores	603,582		603,582	479,817	123,765	79%	
DFPPF Sales	160,000,000		160,000,000	36,642,925	123,357,075	23%	Low crop seasons
Recurrent Grant	135,000,000		135,000,000	135,000,000	-	100%	
Farm Mechanization Grant	100,000,000		100,000,000	100,000,000	-	100%	
Opening balances/ Ammo debtors	450,856,191		450,856,191	944,971,509	(494,115,318)	210%	Delay in payment by customers
Total Income	**2,058,650,020**		**2,058,650,020**	**2,342,604,668**	**(283,954,649)**		
Expenditure							
Materials for Ammo Production	877,492,265		877,492,265	651,988,644	225,503,621	74%	Delayed delivery
Carbide and Non Carbide Tools	58,212,020		58,212,020	46,638,624	11,573,396	80%	Delayed delivery
Machine Maintenance Spares	30,238,296		30,238,296	29,469,495	768,801	97%	
Auxiliary Parts for Tools Production	36,132,559		36,132,559	47,354,251	(11,221,692)	131%	
Auxiliary Consumables and Chemicals	21,644,525		21,644,525	-	21,644,525	0%	
Chemicals for Water and Effluent Treatment	5,370,673		5,370,673	2,855,583	2,515,090	53%	Lack of fund
Newspaper, Manuals and Technical Journals	860,000		860,000	672,060	187,940	78%	Lack of fund
Repairs and Maintenance of Buildings	3,598,138		3,598,138	1,028,845	2,569,293	29%	Lack of fund
Repairs and Maintenance of Vehicles	13,352,965		13,352,965	9,933,608	3,419,357	74%	Lack of fund
General Maintenance of Roads	880,000		880,000	41,400	838,600	5%	Lack of fund
ERP Maintenance	1,000,000		1,000,000	-	1,000,000	0%	Lack of fund
Computer Expenses and Software	3,210,066		3,210,066	1,317,956	1,892,110	41%	Lack of fund

DEFKITCH 2012 Fabrication	8,026,317		8,026,317	6,441,455	1,584,862	80%	Lack of fund
Materials for Tools Production	3,022,566		3,022,566	537,827	2,484,739	18%	Lack of fund
Bank Charges and Commission	5,500,000		5,500,000	3,584,952	1,915,048	65%	Reduced transactions
Electricity Expenses	40,000,000		40,000,000	33,255,790	6,744,210	83%	Increase in efficiency
Emoluments	313,504,343		313,504,343	306,821,811	6,682,532	98%	
Motor Vehicles Operating Expenses	53,422,836		53,422,836	51,976,585	1,446,251	97%	
Directors Allowances	2,500,000		2,500,000	1,540,268	959,733	62%	Reduced no of meetings
Travelling and Accommodation	20,000,000		20,000,000	10,714,515	9,285,485	54%	Lack of funds
Hospitality and Official Entertainment	2,140,000		2,140,000	1,601,974	538,026	75%	Lack of funds
Telephone, DSTV and Internet expenses	3,600,200		3,600,200	3,508,088	92,112	97%	
Postal and Courier Expenses	640,000		640,000	133,800	506,200	21%	Adoption of technology
Drugs, Dressing and Medical Expenses	695,750		695,750	318,197	377,553	46%	Procured on need basis
General Stores	2,202,987		2,202,987	2,009,694	193,293	91%	
Payment of Rent	2,608,320		2,608,320	2,371,000	237,320	91%	
Insurance Expenses	24,055,345		24,055,345	14,829,284	9,226,061	62%	Contracts payable in 2 instalmets
Office Equipment	1,150,340		1,150,340	83,647	1,066,693	7%	Lack of funds
Domestic and Household Equipment	2,298,032		2,298,032	875,404	1,422,628	38%	Lack of funds
Audit Expenses, Legal and Consultancy Svcs	19,646,591		19,646,591	900,000	18,746,591	5%	Lack of funds
Printing and Purchase of Stationery	9,880,407		9,880,407	6,423,446	3,456,961	65%	Lack of funds
Environment, Water and Sanitation	900,000		900,000	973,696	(73,696)	108%	
Purchase of Protective Gear	1,744,277		1,744,277	11,655	1,732,622	1%	Lack of funds
Purchase of Security and Safety Equipment	1,891,880		1,891,880	76,984	1,814,896	4%	Lack of funds
Training Expenses	3,635,400		3,635,400	83,540	3,551,860	2%	Lack of funds
Tendering and Advertisement	1,500,000		1,500,000	542,271	957,729	36%	consolidation of advertisement
Clearance, Transport and Freight	21,000,000		21,000,000	17,646,781	3,353,219	84%	Delayed deliveries
Farm and Expenses	71,284,700		71,284,700	40,088,625	31,196,075	56%	Use of KOFC equipment
Milling Expenses	21,589,100		21,589,100	31,101,171	(9,512,071)	144%	
Bakery Expenses	155,040,857		155,040,857	156,777,232	(1,736,376)	101%	
Water Bottling plant Expenses	62,596,068		62,596,068	58,851,576	3,744,493	94%	General rise in prices
Farm Mechanization	100,000,000		100,000,000	-	100,000,000	0%	Cash held by Debtors
Purchase of Motor Vehicles	11,000,000		11,000,000	-	11,000,000	0%	Lack of funds
33 KVA Switch Gear	14,800,000		14,800,000	-	14,800,000	0%	Lack of funds
Ammo Production Test Weapons	3,040,000		3,040,000	400,000	2,640,000	13%	Lack of funds

Installation of CCTV System	2,891,000		2,891,000	-	2,891,000	0%	Lack of funds
Replacement of Water Line Eqpt (pumps)	9,162,850		9,162,850	4,571,506	4,591,344	50%	Lack of funds
Check Weightier	7,636,070		7,636,070	-	7,636,070	0%	Lack of funds
Grain Silo	88,363,763		88,363,763	48,984,278	39,379,485	55%	Delay in completion and handover
NIR Analyzer	6,000,000		6,000,000	-	6,000,000	0%	Lack of funds
Profile Projector	10,000,000		10,000,000	-	10,000,000	0%	Lack of funds
Vickers Hardness Tester	10,000,000		10,000,000	-	10,000,000	0%	Lack of funds
Primer Sensitivity Tester	3,811,003		3,811,003	3,811,003	-	100%	
CNC Lathe Machine	17,188,997		17,188,997	-	17,188,997	0%	Lack of funds
Sales and Marketing Expenses	6,900,000		6,900,000	6,040,202	859,798	88%	
Purchase of Laboratory Equipment	9,818,200		9,818,200	-	9,818,200	0%	Lack of funds
Lab Reagents and Eqpt Servicing	1,912,000		1,912,000	844,374	1,067,626	44%	Lack of funds
Research and Development (Ammo Box)	2,000,000		2,000,000	-	2,000,000	0%	Lack of funds
ISO Transition from 2008 to 2015	6,780,000		6,780,000	-	6,780,000	0%	Lack of funds
DFPPF Expenses	170,088,513		170,088,513	56,660,662	113,427,850	33%	Low crop season
Depreciation	101,539,694		101,539,694				
Total Expenditure	**2,490,999,913**	-	**2,490,999,913**	**1,666,693,761**	**722,766,458**		
Surplus/(Deficit)			**(432,349,893)**	**675,910,908**	**(1,006,721,106)**		

18. Notes to the Financial Statements

1. General Information

KOFC is established by and derives its authority and accountability from the Legal Notice No 125, of 25 July 1997 Cap 446 of The State Corporation Act. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is to manufacture military hardware, machinery and equipment and may engage on incidental activities essential to its object.

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 Corporation's accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Corporation, and all values are rounded off to the nearest Kenya shillings. 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.

Notes to the Financial Statements (Continued)

3. Application of New and Revised International Financial Reporting Standards (IFRS)

i. New and amended standards and interpretations in issue and effective in the year ended 30 June 2023.

Title	Description	Effective Date
IFRS 17 Insurance Contracts (issued in May 2017)	The new standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. The Company does not issue insurance contracts.	Effective for annual periods beginning on or after 1st January 2023.
IAS 8- Accounting Policies, Errors, and Estimates	The amendments, applicable to annual periods beginning on or after 1st January 2023, introduce a definition of 'accounting estimates' and include other amendments to IAS 8 to help entities distinguish changes in accounting policies from changes in accounting estimates.	The amendments are effective for annual reporting periods beginning on or after January 1, 2023.
Amendments to IAS 1 titled Disclosure of Accounting Policies (issued in February 2021)	The amendments, applicable to annual periods beginning on or after 1st January 2023, require entities to disclose their **material** accounting policy information rather than their **significant** accounting policies. This has not brought about any change to the accounting policies disclosed	The amendments are effective for annual periods beginning on or after January 1, 2023.
Amendments to IAS 12 titled Deferred Tax Related to Assets and Liabilities arising from a Single Transaction	The amendments, applicable to annual periods beginning on or after 1st January 2023, narrowed the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 (recognition exemption) so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.	The amendments are effective for annual periods beginning on or after January 1, 2023.

Notes to the Financial Statements (Continued)

The Directors have assessed the applicable standards and amendments. Based on their assessment of impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

ii. **New and amended standards and interpretations in issue and effective in the year ended 30 June 2023.**

Title	Description	Effective Date
Amendments to IAS 1 titled Classification of Liabilities as Current or Non-current (issued in January 2020, amended in October 2022)	The amendments, applicable to annual periods beginning on or after 1st January 2024, clarify a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period	The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted.
Amendment to IFRS 16 titled Lease Liability in a Sale and Leaseback (issued in September 2022)	The amendment, applicable to annual periods beginning on or after 1st January 2024, requires a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss.	The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted.
Amendments to IAS 1 titled Non-current Liabilities with Covenants (issued in October 2022)	The amendments, applicable to annual periods beginning on or after 1st January 2024, improve the information an entity provides about liabilities arising from loan arrangements for which an entity's right to defer settlement of those liabilities for at least twelve months after the reporting period is subject to the entity complying with conditions specified in the loan arrangement.	The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted.

The Directors 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.

Notes to the Financial Statements (Continued)

iii. **Early adoption of standards**
The Entity did not early – adopt any new or amended standards in the financial year.

4. Summary of Accounting Policies

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

a) Revenue recognition
Revenue is measured based on the consideration to which the Corporation expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Corporation recognizes revenue when it transfers control of a product or service to a customer.

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

ii) **Grants from National Government** are recognized in the year in which the Corporation actually receives such grants. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.

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

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

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

Notes to the Financial Statements (Continued)

c) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses. Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses.

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

d) Depreciation and impairment of property, plant and equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the cost of ongoing but incomplete works on buildings and other civil works and installations.

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

Freehold Land	Nil
Buildings and civil works	1%
Plant and machinery	2.5%
Motor vehicles, including motor cycles	25%
Computers and related equipment	30%
Office equipment, furniture and fittings	5%

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

e) Inventories

Inventories are stated at the lower of cost and net realizable value Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method.. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Notes to the Financial Statements (Continued)

f) Trade and other receivables

Trade and other receivables are recognized at amortized cost 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.

g) Taxation

i) 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.

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.

ii) 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. 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.

Notes to the Financial Statements (Continued)
Summary of Accounting Policies

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.

h) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits, on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various Commercial Banks at the end of the reporting period. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

i) 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.

j) Retirement benefit obligations

KOFC operates a contributory retirement benefit scheme for all full-time employees from July 1, 1998. The scheme is administered by trustees is funded by contributions from both the Corporation and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is also a contributory retirement benefit scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.1080 per employee per month.

Notes to the Financial Statements (Continued)

Summary of Accounting Policies

k) Provision for staff leave pay

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

l) 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.

m) Budget information

The original budget for FY 22/23 was approved by the National Treasury on 22 December 2022. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities.

The Corporation'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.

Notes to the Financial Statements (Continued)
Summary of Accounting Policies

n) Service concession arrangements
The Entity analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Entity recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Entity also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

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

p) 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, 2023.

5. Significant Judgements and Sources of Estimation Uncertainty

The preparation of the Entity's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Notes to the Financial Statements (Continues)

a) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur.

b) Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Entity
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the assets

Notes to the Financial Statements (Continues)

6. Revenue from contract with customers

Description	2022-2023	2021-2022
	Kshs	Kshs
Sales of Ammo	675,686,976	604,021,182
Total	**675,686,976**	**604,021,182**

7. Cost of Sales

Description	2022-2023 Kshs	2021-2022 Kshs
Direct Costs		
Openinng stock	398,716,023	274,544,235
Purchases	651,988,644	275,371,679
	1,050,704,667	**549,915,914**
Less:		
Closing stock of raw materials	(883,338,069)	(398,716,022)
Cost of raw materials used	**167,366,597**	**151,199,892**
Add:		
Direct labour	175,625,368	465,082,622
Prime cost	**342,991,965**	**616,282,514**
Factory Overheads		
Insurance	6,238,581	16,055,676
Electricity	15,727,191	26,621,519
Goods clearance expenses	17,646,781	8,472,376
Consumables		20,566,648
Water and effluent treatment chemical		1,507,630
Laboratory chemicals		1,205,668
Machine Spares & Maintenance	123,462,371	18,639,326
Depreciation (Note 12(c))	69,129,536	
Plant and machinery		75,396,613
Motor vehicles		19,243,469
Building and civil work		5,456,000
Furniture and fittings		1,024,131
Waterline and civil works		3,814,178
	232,204,460	**198,003,235**
Total	**575,196,426**	**814,285,749**
Opening work-in-progress	353,908,566	195,369,017
Opening scrap	1,011,250	1,416,000
Less:		
Closing work-in-progress	(278,481,503)	(353,908,566)
Closing scrap	(1,701,000)	(1,011,250)

Notes to the Financial Statements (Continues)

Production Cost of Finished Goods	**649,933,739**	**656,150,950**
Opening stock of finished goods	201,894,864	334,609,937
Goods available for sale	**851,828,603**	**990,760,887**
Closing stock	(263,847,033)	(201,894,864)
Cost of sales	**587,981,570**	**788,866,022**

8. Grants from National Government

Description	2022-2023	2021-2022
	Kshs	Kshs
Recurrent grant	135,000,000	135,000,000
Other grants (Salaries and allowances)	372,299,410	359,409,510
Capital grant	100,000,000	100,000,000
Total	**607,299,410**	**594,409,510**

Ministry of Defence	Amount recognized in the Statement of Comprehensive Income	Amount deferred under deferred income	Amount recognised in capital fund.	2022/2023	2021/2022
	KShs	KShs	KShs	*Kshs*	*Kshs*
MoD	507,299,410	100,000,000	-	607,299,410	594,409,510
Total	**507,299,410**	**100,000,000**	-	**607,299,410**	**594,409,510**

8(a) Other grants relate to salaries and allowances to seconded military personnel paid by Ministry of Defence. Seconded Military Personnel are distributed among various KOFC Factories. Other Grants are apportioned according to Seconded Military Personnel deployment as follows:

Description	2022-2023	2021-2022
	Kshs	Kshs
Ammunition	90,571,783	96,245,696
Farm and Milling	7,576,462	7,576,462
Piped Water	7,286,008	1,612,094
DefKitch 2012, Field Kitchen & GE	8,464,547	8,464,547
Bottled Water	22,296,798	22,296,798
Bakery Products	18,798,276	18,798,276
KDF FPF (Dehydrated Vegetables)	17,161,130	17,161,130
Admin	200,144,406	187,254,507
Total	**372,299,410**	**359,409,510**

Notes to the Financial Statements (Continues)

9. Finance Income

Description	2022-2023	2021-2022
	Kshs	Kshs
Interest From Commercial Banks	9,567,102	7,301,192
Total	**9,567,102**	**7,301,192**

10. Other Income

Description	2022-2023	2021-2022
	Kshs	Kshs
Farm and Milling (Note 10 (a))	209,138,946	215,771,658
Piped Water	7,038,434	10,283,760
DefKitch 2012, Field Kitchen & GE	2,973,262	7,194,701
Bottled Water	62,452,617	78,247,157
Disposal(s)	479,817	193,438
Bakery Products	150,149,044	197,270,915
KDF FPF (Dehydrated Vegetables)	36,642,925	100,705,332
Total	**468,875,045**	**609,666,961**

10(a) Farm and milling income comprise of the following:

Description	2022-2023	2021-2022
	Kshs	Kshs
Farm and Milling Sales	217,642,983	148,383,807
Fair value loss of Biological Assets (Note 10(b))	(8,504,037)	67,387,851
Total	**209,138,946**	**215,771,658**

10(b) Fair Value gain/(loss)on Biological Assets

Description	2022-2023	2021-2022
	Kshs	Kshs
Opening Balance	(231,408,009)	164,020,158
Closing Balance	222,903,972	231,408,009
Fair value gain/(loss)	**(8,504,037)**	**395,428,167**

11. Other Gains and Losses

Description	2022-2023	2021-2022
	Kshs	Kshs
Foreign exchange gains / (losses)	(35,990,865)	-
Total	**(35,990,865)**	-

Notes to the Financial Statements (Continued)

12. **Administration Costs**

Description	2022-2023	2021-2022
	Kshs	Kshs
Staff costs (Note (12a))	316,329,036	199,321,124
Advertisement and tendering expenses	542,271	754,387
Audit expenses	900,000	
Bank charges	3,584,952	8,601,075
Computer expenses	1,317,956	4,975,927
Communication expenses	216,207	288,000
Sales, Marketing and Advertisement		93,909
Depreciation: Administration (Note (12c))	14,410,215	
Motor Vehicle		4,810,867
Building and Civil Work		1,364,000
Furniture and Fitting		256,033
Watrline and Civil Work		953,544
Computers		1,717,280
Director allowances	1,540,268	2,499,019
Domestic and household expenses	875,404	1,848,153
Electricity expenses	3,931,798	6,655,380
General expenses	2,009,694	1,063,270
Insurance expenses	5,706,537	4,013,919
Telephone, DSTV and Internet	3,508,088	166,987
Postage	133,800	3,738,488
Building Maintenance	1,028,845	2,210,769
Road Maintenance	41,400	123,650
Medical expenses	318,197	318,962
Petroleum Oil and Lubricant		27,982,576
Motor vehicle running expenses	20,462,165	13,242,899
Newspaper and Periodicals	672,060	739,220
Official Entertainment	1,601,974	981,937
Stationery and office expenses	6,423,446	4,564,289
Protective gears and uniform	11,655	846,710
ISO and Quality assurance certification	844,374	1,044,000
Rent and rates	2,371,000	2,306,000
Security expenses	76,984	252,075
Training expenses	83,540	1,056,157
Travelling and accommodation	10,714,515	17,625,622
Water and conservation expenses	973,696	590,777

Notes to the Financial Statements (Continued)

Field kitchen fabrication	6,441,455	10,584,980
Depreciation: Farm and Milling (Note (12c))	23,074,507	
Other farm expenses	78,054,683	65,228,437
Other milling expenses		6,921,449
Depreciation: Bakery (Note (12c))	1,062,527	
Other Bakery expenses	200,159,671	176,661,853
Depreciation: Water Bottling (Note (12c))	1,263,219	
Other Water Bottling expenses	79,089,329	57,298,372
Piped water expenses	15,162,511	
Depreciation: DFPPF (Note (12c))	14,539,737	
Other DFPPF expenses	70,521,449	118,484,554
Total	**889,999,166**	**752,186,646**

12(a) Staff Costs

Staff cost has been distributed among KOFC lines of business they relate to as follows:

Description	2022-2023	2021-2022
	Kshs	Kshs
Administation	316,329,036	199,321,124
Ammunition	175,625,368	465,082,622
Farm and Milling	20,629,492	
Piped Water	8,222,008	
DefKitch 2012, Field Kitchen & GE	10,264,547	
Bottled Water	37,668,871	
Bakery Products	46,257,966	
cCommercial service	5,749,096	
KDF FPF (Dehydrated Vegetables)	40,485,783	
Total	**661,232,167**	**664,403,746**
Casual labourers	20,184,269	19,265,444
	681,416,435	683,669,190

Notes to the Financial Statements (Continued)

12(b) Staff cost

Description	2022-2023	2021-2022
	Kshs	Kshs
Salaries and allowances of permanent employees	262,538,088	281,085,915
Wages of temporary employees	20,184,269	19,265,444
Medical insurance schemes		
Employer's contributions to national social security schemes	788,400	721,400
Employer's contributions to pension scheme	16,187,726	14,901,952
Leave pay	9,418,543	8,284,969
Gratuity provisions		
Fringe benefit tax		
Staff welfare		
In kind grant (Salary to seconded personnel	372,299,410	359,409,510
Total	**681,416,435**	**683,669,190**
The average number of employees at the end of the year was:		
Permanent employees – management	9	9
Permanent employees – unionisable	308	311
Temporary and contracted employees	10	15
Total	327	335

12(c) Apportionment of depreciation expenses. Depreciation expense is distributed as follows:

Description	2022-2023	2021-2022
	Kshs	Kshs
Farm and Milling	23,074,507	
Production	69,129,536	104,934,391
Bottled Water	1,263,219	
Administration	14,410,215	9,101,724
Bakery Products	1,062,527	
DFPPF	14,539,737	
Total	**123,479,742**	**114,036,115**

13. Selling and Distribution Costs

Description	2022-2023	2021-2022
	Kshs	Kshs
Salaries and wages of Sales personnel	5,749,096	
Marketing and Promotional expenses		
Sales commissions		
Sales discounts and rebates		
Other Selling and Distribution costs	291,106	
Total	**6,040,202**	

Notes to the Financial Statements (Continued)

14. Operating Profit/ (Loss)

Description	2022-2023	2021-2022
	Kshs	Kshs
The operating profit/(loss) is arrived at after charging/(crediting):		
Staff Costs (Note 12b)	681,416,435	683,669,190
Depreciation of property, plant and equipment	123,479,742	114,036,115
Directors' emoluments – fees	1,540,268	2,499,019
Auditors' remuneration - current year fees	900,000	812,000
Net foreign exchange loss	35,990,865	-
Interest receivable	(9,567,102)	(7,301,192)

15. Income Tax Expense/(Credit)

Description	2022-22023	2021-2022
	Kshs	Kshs
Current taxation based on the adjusted Profit for the year (Note 35)	(19,168,219)	
Current tax: Prior Year Under/(Over) provision		
Current year deferred tax charge		
Prior Year Under-provision for deferred tax		
Total	**(19,168,219)**	

Notes to the Financial Statements (Continued)

16. **Property, Plant and Equipment**

AS AT 30/06/2023	LAND	BUILDING AND CIVIL WORKS	WATERLINE AND CIVIL WORKS	WORK IN PROGRESS	PLANT, EQPT AND MACHINERY	MOTOR VEHICLES	FURNITURE AND FITTINGS	COMPUTERS	TOTAL
COST		KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS
DEPRECIATION RATE	0%	1%	1%	0%	2.50%	25%	5%	30%	
1st JULY 2022	6,945,000,000	682,000,000	476,772,242	279,039,860	3,015,864,528	119,937,562	25,982,034	55,544,319	11,600,140,545
ADJUSTMENTS						-	-		-
(REVALUATION)						-	-		-
CAPITALIZED			-	-	-	-	-	-	-
ADDITIONS	-	-	-	83,596,888	8,782,509	-	71,300	1,317,093	93,767,790
30 JUNE 2023	**6,945,000,000**	**682,000,000**	**476,772,242**	**362,636,748**	**3,024,647,037**	**119,937,562**	**26,053,334**	**56,861,412**	**11,693,908,335**
DEPRECIATION									
ACCUMULATED -1 JUL 22	-	10,230,000	111,665,553	-	1,561,959,090	40,860,755	20,355,443	49,988,070	1,795,058,911
ADJUSTMENT							-		-
CHARGE FOR THE YEAR	-	6,820,000	4,767,722	-	75,616,176	29,984,391	1,302,667	4,988,786.9	123,479,742
ACCUMULATED-30 JUN 23	-	17,050,000	116,433,275	-	1,637,575,266	70,845,146	21,658,110	54,976,857	1,918,538,653
NET BOOK VALUE-30 JUN 23	**6,945,000,000**	**664,950,000**	**360,338,967**	**362,636,748**	**1,387,071,771**	**49,092,417**	**4,395,224**	**1,884,555**	**9,775,369,682**
NET BOOK VALUE-30 JUN 22	6,945,000,000	671,770,000	365,106,689	279,039,860	1,453,905,438	79,076,807	5,626,591	5,556,249	9,805,081,634

Notes to the Financial Statements (Continued)

16(a) Fully Depreciated Assets.

Computers worth Kshs 51,000,169 are fully depreciated and are yet tobr revalued or disposed.

16(b) Additional assets

Asset Class	Description	Amount
Computers	APC Smart UPS	814,070
	Epson Printer	36,323
	Finance Hard Disks	38,000
	ETR Machines	200,000
	HP Computers	50,000
	LaserJet Printer	50,000
	LaserJet Printer	39,600
	LaserJet Printer	39,600
	Panasonic Telephone System	49,500
Furniture	Office Chairs	43,800
	Office Chairs	27,500
Plant and Machinery	Centrifugal pump	1,308,670
	Centrifugal pump	1,381,200
	Centrifugal pump	1,881,636
	Primer Sensitivity Tester	3,811,003
	Duma Hand Gun Pistol	400,000
Work in Progress	Cause Gauging Machine	34,612,610
	Silo	48,984,278
Total		**93,767,790**

17. Inventories

Description	2022-2023	2021-2022
	Kshs	Kshs
Raw materials	883,338,069	364,475,592
Chemicals, oil and lubricants	4,344,035	34,240,430
Work In Progress	278,481,503	353,908,568
Finished goods	263,847,033	201,894,864
Farm and milling	58,222,965	5,816,509
DFPPF	22,207,796	
Production scrap	1,701,000	1,011,250
Bakery stores	18,089,343	24,143,916
Stationery	155,994	557,750
General engineering store	9,900,000	1,626,340
General store	30,910	82,739
Water bottling	14,348,162	7,999,524
Total	**1,554,666,810**	**995,757,483**

Notes to the Financial Statements (Continued)

17(a) Opening FY 2021-2022 inventories valued at Ksh 495,646,645.00 had been erroneously treated as closing stock in the same FY. This resulted to overstated profits in the same FY and overstated opening inventories value for the FY 2022-2023 by the same amount.

18. Biological Assets

Description	2022-2023	2021-2022
	Kshs	Kshs
Maize	132,317,372	68,096,644
Assorted Trees	87,909,600	157,491,365
Pastures	2,677,000	5,820,000
Total	**222,903,972**	**231,408,009**

19. Trade and Other Receivables

Description	2022-2023	2021-2022
	Kshs	Kshs
(a) Current receivables		
Trade Receivables (Note 27 (a))	776,088,742	303,385,387
Prepayments	26,291,396	309,458,131
Staff receivables (Note 27 (b))	2,298,512	3,090,976
Total current receivables	**804,678,650**	**615,934,494**
(b) Non-current receivables		
Trade Receivables	2,394,024	2,394,024
Prepayments	13,081,570	26,641,570
Claimable VAT	111,957,288	111,957,288
Tax recoverable	12,859,976	12,859,976
Total non-current receivables	**140,292,858**	**153,852,858**
Net Trade and Other Receivables	**944,971,508**	**769,787,352**

Notes to the Financial Statements (Continued)

19 (a) Trade Receivables

Description	2022-2023	2021-2022
	Kshs	Kshs
Gross Trade Receivables	776,088,742	303,385,387
Net Trade Receivables	776,088,742	303,385,387
ageing analysis of gross Trade Receivables		
Less than 30 Days		
Between 30 and 60 Days	776,088,742	303,385,387
Between 61 and 90 Days	-	-
Between 91 and 120 Days	-	-
Over 120 Days	-	-
Total	**776,088,742**	**303,385,387**

19(b) Staff Receivables

Description	2022-2023	2021-2022
	Kshs	Kshs
Staff receivables	2,298,513	3,090,976
Provision for impairment loss	-	-
Net staff receivables	2,298,513	3,090,976
Less: Amounts due within one year	2,298,513	3,090,976
Amounts due after one year	-	-

19(c) Tax Recoverable

The Corporation is following up on the long outstanding debt of 124,817,264.00 with KRA and the Ministry of Defence.

20. Short Term Deposits

Description	2022-2023	2021-2022
	Kshs	Kshs
Cooperative Bank Of Kenya	59,980,377	
Cooperative Bank Of Kenya	34,139,800	
Kenya Commercial Bank	4,000,000	335,500,000
Kenya Commercial Bank	30,000,000	
Total	**128,120,177**	**335,500,000**

The average effective interest rate on the short term deposits as at June 30, 2023 was 3.5% (2022: 3.5%).

20(a). Kshs 8,000,000.00 on call deposit which was in Coop Bank account had been omitted in year 2021/2022 financial statements.

Notes to the Financial Statements (Continued)

21. Bank and Cash Balances

Description	2022-2023 Kshs	2021-2022 Kshs
Cash at bank	85,337,831	63,352,471
Cash in hand	52,287	1,289,122
M-pesa	1,299,288	1,485,097
	86,689,406	**66,126,690**
Fixed/on-call deposit	128,120,177	335,500,000
Total	**214,809,583**	**401,626,690**

The bulk of the cash at bank was held at Kenya Commercial Bank and Cooperative Bank, the Corporation's main bankers.

Detailed analysis of the cash and cash equivalents

Description	Account no	2022-2023 Kshs	2021-2022 Kshs
a) Current Account			
KCB	1,108,117,961	43,979,047	27,061,306
KCB Dollar account	1,176,538,969	9,891,342	467,655
Co-operative Bank-Main	1,136,440,335,600	19,040,002	12,227,894
Co-operative Bank-Bakery	1,148,440,335,600	7,382,242	5,439,460
Co-operative Bank-FPF Gilgil	1,136,440,335,601	7,307	904,208
Equity Bank	300,297,565,294	2,398,515	2,435,931
National Bank	1,001,017,953,900	2,639,378	14,816,048
Sub- Total		**85,337,832**	**63,352,471**
b) On - Call Deposits			
KCB	11081179-1	4,000,000	
Coop Bank	1,150,440,335,600	34,139,800	
Coop Bank	110,440,335,600	59,980,376	
KCB	11081179-1	30,000,000	335,500,000
Sub- Total		**128,120,177**	**335,500,000**
c) Others			
Cash in hand		52,287	1,289,122
M-Pesa		1,299,288	1,485,097
Sub- Total		**1,351,575**	**2,774,219**
Grand Total		**214,809,583**	**401,626,690**

Notes to the Financial Statements (Continued)

22. **Government investment**. Government investment is the initial amount used in establishing the Factory and other additional investments.

23. **Revaluation Reserve**. The reserve is as a result of revaluation of motor vehicles, three parcel of land and buildings. Land and building were valued by officers from the Ministry of Land and Physical Planning at Kshs 6,975,261,655.00 in 2020.

24. **Deferred Income**

Description	2022-2023	2021-2022
	Kshs	Kshs
National Government	243,295,161	85,489,354
Total Deferred Income	**243,295,161**	**85,489,354**

The deferred income movement is as follows:

Description	2022-2023	2021-2022
	Kshs	Kshs
Balance Brought Forward	165,579,552	51,455,768
Additions	100,000,000	100,000,000
Transfers To Income Statement	(22,284,391)	(65,966,414)
Balance Carried Forward	**243,295,161**	**85,489,354**

24(a) Opening balance of the deferred income has been adjusted upward by Kshs 80,090,198.00 in the Statement of Change in Equity in order to comply with IAS 20

25. **Trade and Other Payables**

Description	2022-2023	2021-2022
	Kshs	Kshs
Trade payables	319,061,599	39,736,910
Prepayments received	277,354,628	277,354,628
Employee payables		4,054,934
Other payables (tax liability)	109,583,229	
Adjustment for other payables		
Total	**705,999,456**	**321,146,472**

Aging Analysis for Trade and other Payables

	2022-2023	% of the total	2021-2022	% of the total
Under one year				
1-2 years	428,644,828	61%	42,484,282	13%
2-3 years				
Over 3 years	277,354,628	39%	277,354,628	87%
Total	**705,999,456**		**319,838,910**	

25(a). An assessment by Kenya Revenue Authority concluded that KOFC had not paid taxes amounting to Kshs **125,081,820.00**. Kshs 15,498,591.00 had been paid as at 30 June 2023 and the balance was Kshs 109,583,229.00.

Notes to the Financial Statements (Continued)

25(b) Non-Current prepayment of Kshs 277,354,628.00 relates to money received from Ministry of Defence for purchase of goods in 2011 but the goods were not collected.

25(c)An adjustment of Kshs 1,307,562.00 in the Statement of Change in Equity relates to monies receive received from medical insurance scheme in the FY 2020-2021 which had been recognised as sales.

26. Current Tax Payable

Description	2022-2023	2021-2022
	Kshs	Kshs
Balance b/f	64,336,372	
Tax charge for the year (Note 35)	19,168,219	64,336,372
Tax paid (Withholding Tax on Interest)	(1,435,065)	
Balance c/f	**82,069,526**	**64,336,372**

27. Retirement Benefit Obligations

The entity contributes to NSSF. This is a defined contribution scheme registered under the National Social Security Act. The entity's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs. 1080 per employee per month. Other than NSSF the entity also has a defined contribution scheme operated by ICEA Lion Pension Fund. Employees contribute 3.5% while employers contribute 7% of basic salary. Employer contributions are recognized as expenses in the statement of financial performance within the period they are incurred.

Notes to the Financial Statements (Continued)

28. **Notes to the Statement of Cash Flows**

Description	*2022-2023*	*2021-2022*
	Kshs	Kshs
(a) Reconciliation Of Operating Profit/(Loss) To Cash Generated From/(Used In) Operations		
Profit or Loss before tax	141,416,730	172,241,730
Depreciation	123,479,742	114,036,116
Increase/decrease in fair value of biological assets	8,504,037	(67,387,850)
Operating Profit/(Loss) before Working Capital changes	**273,400,509**	**218,889,996**
(Increase)/Decrease in Inventories	(558,909,327)	(316,865,269)
(Increase)/Decrease in Trade and Other Receivables	(175,184,156)	30,396,143
Increase/(Decrease) in Trade and Other Payables	276,577,316	57,494,269
Cash Generated from/(used In) operations	**(184,115,657)**	**(10,084,861)**

29. **Tax paid**

Description	2022-2023	2021-2022
	Kshs	Kshs
Withholding Tax on Interest	1,435,065	
Previous years' Tax paid	15,498,591	
Total	**16,933,656**	

Notes to the Financial Statements (Continued)

30. **Related Party Disclosures**

Government of Kenya

The Government of Kenya is the principal shareholder of KOFC, holding 100% of the Corporation's equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the entity, both domestic and external.

Other related parties include:

i) Ministry of Defence.
ii) National Police Service.
iii) KPLC
iv) National Intelligence Service
v) Key management
vi) Board of Directors

Notes to the Financial Statements (Continued)

Transactions with related parties

Description	2022-2023 Kshs	2021-2022 Kshs
a) Sales to related parties		
Sale of goods to government institution	867,793,488	1,153,601,484
Total	**867,793,488**	**1,153,601,484**
b) Purchases from related parties		
Purchases of electricity from KPLC	33,255,790	33,276,899
Total	**33,255,790**	**33,276,899**
c) Grants from the government		
Grants from national govt	235,000,000	235,000,000
Total	**235,000,000**	**235,000,000**
d) Expenses incurred on behalf of related party		
Payments of salaries and wages for employees	372,299,410	359,409,510
Total	**372,299,410**	**359,409,510**
e) Key management compensation		
Directors' emoluments	1,540,268	2,499,019
Compensation to key management	-	-
Total	**1,540,268**	**2,499,019**

31. **Capital Commitments**

Capital commitments at the year- end for which no provision has been made in these financial statements are:

Description	2022-2023	2021-2022
	Kshs	Kshs
Amounts authorised and Contracted for	224,689,366	224,689,366
Amounts authorizes but Not Contracted for	-	-
Less: Amounts included in Work In Progress	164,566,526	115,882,245
	60,122,841	**108,807,122**

Notes to the Financial Statements (Continued)

32. Financial Risk Management

The Corporation's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. 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 only extended to customers with an established credit history.

The company's financial risk management objectives and policies are detailed below:

(I) Credit risk

The Corporation has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors.

The carrying amount of financial assets recorded in the financial statements representing the entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

Description	Total amount	Fully performing	Past due	Impaired
	Kshs	Kshs	Kshs	Kshs
At 30 June 2023				
Receivables from exchange transactions	778,482,766	776,088,742	2,394,024	-
Receivables from non-exchange transactions	166,488,742	28,589,908	137,898,834	-
Bank and cash balances	214,809,583	214,809,583	-	-
Total	**1,159,781,091**	**1,019,488,233**	140,292,858	-
At 30 June 2022				
Receivables from exchange transactions	641,879,112	615,934,494	25,944,618	-
Receivables from non-exchange transactions	127,908,239	-	127,908,239	-
Bank balances		-	-	-
Total	**769,787,351**	**615,934,494**	**153,852,857**	-

Notes to the Financial Statements (Continued)

Credit Risk (Continued)

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal. The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the entity's directors, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows. The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Description	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
At 30 June 2023				
Trade payables	705,999,456	319,061,599	386,937,857	705,999,456
Current portion of borrowings				
Provisions				
Deferred income	243,295,161	243,295,161	243,295,161	486,590,322
Employee benefit obligation				
Total	**949,294,617**	**562,356,760**	**630,233,018**	**1,192,589,778**
At 30 June 2022				
Trade payables	317,091,538	43,791,844	273,299,694	
Current portion of borrowings	-	-	-	-
Provisions				
Deferred income	85,489,354	85,489,354	-	-
Employee benefit obligation	4,054,934	4,054,934		
Total	**406,635,826**	**133,336,132**	**273,299,694**	-

Notes to the Financial Statements (Continued)

(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.

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

The entity has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies converted to Kenya Shillings at the time of payment using the prevailing exchange rate. The carrying amount of the entity's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

Description		Other currencies	Total
	Kshs	Kshs	Kshs
At 30 June 2023	-	-	-
Financial assets	-	-	-
Investments	-	-	-
Cash	-	9,891,342	9,891,342
Debtors	-	-	-
Financial liabilities	-	-	-
Trade and other payables	-	-	-
Borrowings	-	-	-
Net foreign currency asset	-	9,891,342	9,891,342

Notes to the Financial Statements (Continued)

b) Interest rate risk

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The company's interest rate risk arises from bank deposits. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company's deposits.

Management of interest rate risk

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

iv) Capital Risk Management

The objective of the Corporation's capital risk management is to safeguard the Board's ability to continue as a going concern. The entity capital structure comprises of the following funds:

Description	2022-2023	2021-2022
	Kshs	Kshs
Revaluation reserve	6,975,261,655	6,975,261,655
Retained earnings	(662,930,756)	(115,952,557)
Capital reserve	5,369,026,514	5,369,026,514
Total Funds	**11,681,357,413**	**12,228,335,612**
Total Borrowings	-	-
Less: Cash and Bank balances	-	-
Net Debt/(Excess Cash and Cash Equivalents)	-	-
Gearing	-	-

33. Incorporation

(The entity) is incorporated in Kenya under the Kenyan Companies Act and is domiciled in Kenya.

34. Events after the Reporting Period

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

35. Income Tax Charge for the Year

Incomes and expenditures were allocated and apportioned to specified sources applicable to the Corporation as guided by Section 15(7) (e) of the Income Tax Act. Two sources generated taxable profits while others accumulated tax credits. Tax charge from the two specified sources was computed as follows:

1. Farm income	
Farm and Milling sales	217,642,983
Less: Fair value loss on Biological Assets	(8,504,037)
Total Farm Income	**209,138,946**

Notes to the Financial Statements (Continued)

Less: Expenses	
Farm expenses	64,474,505
Milling Electricity	2,787,840
Milling plant consumables	33,866,845
Depreciation: Farm and Milling	**(23,074,507)**
	78,054,683
DFPPF Farm expenses	18,965,664
Sub Total Farm Expenses	**97,020,347**
Other Farm Admin costs-Apportioned-50% of 30% of P& L figures	
Motor vehicle running expense	3,069,325
Travelling and accommodation	1,601,773
Administrative salaries and allowances	17,427,694
Telephone Internet and DSTV	526,213
Postage	20,070
Computer expenses	197,693
Official entertainment	240,296
Directors fees	231,040
uniforms	1,748
Printing and stationery	956,092
General stores and replacement of pumps	308,579
Training	12,531
Medical expenses	47,730
Electricity	589,770
Advertising, Sale and tendering	81,341
Newspaper and periodicals	100,809
Domestic and Household expenses/office equipment	131,311
Insurance	855,981
Building and Roads maintenance	154,327
Audit and legal fees	135,300
ISO certifications	126,656
Water & Conservancy	146,054
Security expenses	11,548
Rent and rates	355,650
Bank charges	537,743
Maintenance expense	160,537
Communication expenses	32,431
Total farm admin expenses@ 50%*30% of P& L figures	**28,060,241**
Total farm expenses	**125,080,588**
Gross Farm Income	**84,058,358**
Less Wear and Tear	**24,947,848**
NET Farm Income	**59,110,510**
Tax Payable on Net Farm Income	**17,733,153**
2. Interest Income	
Fixed deposit interest	9,567,103
Tax on Fixed Deposit Interest	**1,435,065**
Total Tax Charge for the Year	**19,168,219**

19. Appendices

Appendix 1: Implementation Status of Auditor-General prior year recommendations

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor.

Ref	Observations from the Auditors	Status	Timeframe
1	**Long Outstanding Payables** The statement of financial position reflects traded and other payables balances of Kshs 321,146,472 which as disclosed in Note 22 to the financial statements, includes trade payables of kshs 277,354,628 relating to prepayment made by the Ministry of Defence for product purchases which have remained unsettled since 2011/2012. Although Management explained that the corporation was to issue a credit note for the outstanding amount, the balance was still outstanding as at 30 June, 2022.	The 63rd BoD meeting resolved the amount to be treated as grant to KOFC for purchase of ammo raw materials.	Expected to be resolved in FY2023-2024
	Further, the trade and other payables balance of kshs 321,146,472 includes other payables balances of kshs 39,736,910 which further includes kshs 23,770,910 relating to money owed to suppliers of raw materials and other suppliers to the Food Processing Factory (DFPPF) for the years 2018/2019 and 2019/2020.No explanation was provided for failure to treat the outstanding payables as first charge in the subsequent years. In the circumstances, the accuracy and existence of the advance payments and other payables of kshs 277,353,628 and kshs 23,770,910 respectively as at 30 June, 2022 could not be confirmed.	Resolved. The outstanding balances of Kshs 23,770,910 owed to suppliers was paid.	

Ref	Observations from the Auditors	Status	Timeframe
2	**Long Outstanding Value Added Tax Expenses** The statement of financial position reflects trade and other receivables balances of kshs 765,927,376 which, as discloses in Note 19(a) to the financial statements, includes claimable Value Added Tax (VAT) amounting to kshs 111,957,288. As previously reported, the claimable VAT of kshs 111,957,288 includes an amount of kshs 68,861,381 indicated as due from the Ministry of Defence and kshs 43,095,907 as VAT erroneously withheld on ammo sales which has been long outstanding. Further, the trade and other receivable balance of kshs 756,927,376 include tax recoverable balance of kshs 12,859,976 related to Value Added Tax (VAT) due from the Kenya Revenue Authority (KRA), which has been outstanding for more than two years. In the circumstances, the existence and recoverability of the claimable VAT and claimable tax recoverable balances of kshs 111, 957,376 and kshs 12, 859,976 respectively could not be confirmed.	Not resolved KOFC BoD on its 63rd BoD meeting directed that KOFC pursue the issue through PS,MoD. The VAT claim of Kshs 12,859,976 is time barred and a request for write off was approved in the 63rd BoD meeting held on 22 Jun 23.	Expected to be resolved in FY2023-2024
3	**Non-Compliance with the Financial Reporting Template** The statement of Directors' Responsibilities and the Statement of Financial Position have been signed by the Managing Directors (Accounting Officer), the Chief Accountant and a Director Contrary to the requirement of the revised annual reporting template of 30 June, 2022 which requires that, the	Resolved This has been complied with and can be checked on subsequent financial year's financial statements.	

Ref	Observations from the Auditors	Status	Timeframe
	statements are signed by the Managing Director, the head of Finance and the Chairperson of the Board of Directors.		
4	**Lack of Approved Human Resources Policy Instruments.** Review of the Human Resource Instrument of the corporation revealed that the Corporation is applying only two Human Resources Policy Instrument in the management of human capital. There are the Terms and Condition of Service approved by the Board of Directors in July, 2008 and the Staff Establishment approved by the Board of Directors in September, 2009. However, these Instruments are yet to be approved by the State Corporations Advisory Committee (SCAC) contrary to circular OP/SCAC. 9/21/1/1 of 15 May, 2017.	Resolved The Corporation has reviewed HR Policy and forwarded to SCAC for approval as per Government guidelines.	Approval of the HR Policy instruments by SCAC will resolve the observation permanently
5	**Work Plan** Evaluation of the Corporation's Board records revealed that the Board of Directors did not develop a work plan for the year under review contrary to section 1.9 (1) of Mwongozo code of Governance for state Corporation, 2015 which requires Board Members to ensure development of an annual board work plan.	Resolved. FY 23/24 Board Work Plan formulated and approved by 63rd BoD Meeting held on 22 June 23	The Board resolved Work Plan must be approved every financial year to avert recurrence.
6	**Board Committee Meeting Thresholds** Review of the Board of Directors records revealed that, the Board established the strategic Committee, Finance and General-Purpose Committee and Audit Committee to facilitate the smooth running of the corporation. However, the Board	Resolved. Due to exigencies of Service duties the Board members are constrained in attending the Board meetings as	KOFC BoD to strictly adhere to the timelines set in the Board Work Plan.

Ref	Observations from the Auditors	Status	Timeframe
	and General-Purpose Committee met twice (25August, 2021 and 14 December, 2021) and Strategic Committee met twice (20 August, 2021 and 22 September, 2021) while the full Board met once (27 June, 2022) during the financial year 2021/2022. Failure by the Board and the Board Committees to hold meeting as per guidelines is a contravention of the requirement of circular Ref. No, OP/CAB.9/1A of 11 March, 2020 and may erode the governance responsibility entrusted to those charged with governance.	institution. KOFC matters are addressed in other forums. However, KOFC BoD approved Board Work Plan which obligates the Board to meet quarterly as per Mwongozo.	

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Name

Accounting Officer

Kenya Ordnance Factories Corporation

Date ………………………..