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REPORT

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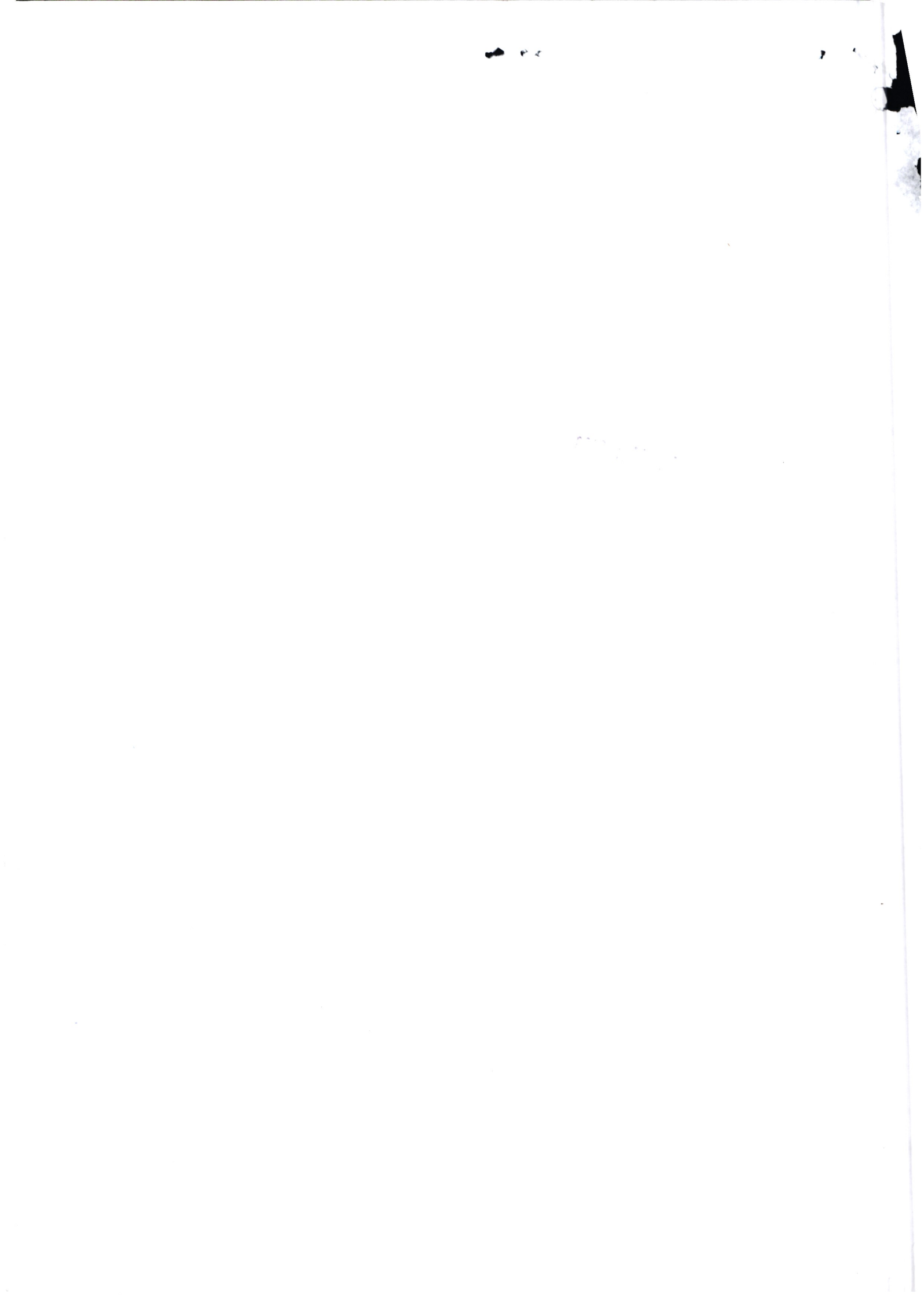
CLERK-AT-THE-TABLE: E. Muriuki

THE AUDITOR-GENERAL

ON

**KENYA NATIONAL TRADING
CORPORATION LIMITED**

**FOR THE YEAR ENDED
30 JUNE, 2021**





KENYA NATIONAL TRADING CORPORATION LTD

REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2021**

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

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I. KEY ENTITY INFORMATION

Background information

The Kenya National Trading Corporation Ltd was established under the Companies Act (Cap 486) in 1965. At cabinet level, the Corporation is represented by the Cabinet Secretary for the Ministry of Agriculture Livestock, Fisheries & Cooperatives who is responsible for the general policy and strategic direction of the Corporation. The Corporation is domiciled in Kenya and has branches in Nairobi, Kisumu, Karatina, Eldoret, Nakuru, Machakos, Kitale and Meru.

Our Vision: To be a leading agent for trade and Socio-economic transformation of Kenya.

Our Mission: 'To provide customers within the region with quality products and services through an efficient distribution network, Partnerships and Innovation'.

Our Mandate:

The mandate of KNTC is operationalized through the performance of the following core functions:

1. Participating in the promotion of wholesale, retail business and e-trade in line with Vision 2030, the medium-term plan and the parent Ministry's Strategic Plan.
2. Promoting the development of SME markets, expansion and diversifications of trade in line with the Government Policy.
3. Partnering with other key players to avail relevant products/input for the agricultural sector.
4. Improving and strengthen supply chain and distribution systems for both the formal and informal sector.
5. Stabilizing consumer commodity prices by ensuring balance in supply and demand through availability of stocks/goods in the country.
6. Being a Procurement Agent for the Government and general public at a minimum fee.
7. Participating in distribution of goods and services in special economic zones.

Directors

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

- | | |
|-----------------------------|--|
| 1. Peter Kaberia | - Chairman of the Board (Appointed 14th December 2018) |
| 2. Timothy M. Mirugi | - Ag. Managing Director (Up to January 2021) |
| 3. Pamela Mutua | - Managing Director (From January 2021) |
| 4. George Kuria Murathe | - Non-Executive Director (Appointed 14th December 2018) |
| 5. Dorothy Muthoni Mituki | - Non-Executive Director (Appointed 14th December 2018) |
| 6. Silas Onyango Okwiry | - Non-Executive Director (Appointed 14th December 2018) |
| 7. Dr. Daniel K. Kirui | - Non-Executive Director (Appointed 14th December 2018) |
| 8. Magdalene Nzisa Munyao | - Non-Executive Director (Appointed 14th December 2018) |
| 9. Roy Evans Otieno Onyango | - Alternate to The PS State Department of Trade (Up to January 2021) |
| 10. Kennedy Oyaro Nyokwoyo | - Alternate to The PS State Department of Trade (From January 2021) |
| 11. Aggrey Wambaya Kituyi | - Alternate to The PS The National Treasury (From January 2021) |
| 12. Michael Rono | - Alternate to the Executive Director ICDC (from December 2018) |

Company Secretary

Mr. Moses Sande Lukale
P.O. Box
30418, Nairobi

Registered Office

KNTC Yarrow Road Complex
Yarrow Road off Nanyuki Road,
Industrial Area,
P.O.Box 30587-00100
Nairobi, Kenya

Corporate

Headquarters

P.O. Box 30587-00100
KNTC Yarrow Road Complex
Yarrow Road off Nanyuki Road,
Industrial Area,

Corporate Contacts

Tel: (020) 2430824 Fax: (020) 556331
Mobile: 0736-563912, 0714563911
Website: www.kntc.co.ke
E-mail: kntc@kntc.co.ke

Corporate Bankers

1. Co-operative Bank of Kenya
Industrial Area
P.O Box 18119-00500,
Nairobi, Kenya.
2. ABSA Bank Kenya
Lungalunga Road,
P.O. Box 18060-00500,
Nairobi, Kenya
3. National Bank of Kenya
Harambee Avenue
P.O Box 41862-00100,
Nairobi, Kenya.

Independent Auditors

The Auditor General
Office of the Auditor-General
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
Nairobi, Kenya

Principal Legal Advisers

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

II. THE BOARD OF DIRECTORS



Peter Kaberia Nkubitu
Chairman of the Board

Position: Peter was appointed chairman of the Board on 14th December 2018.

Skills and experience: Peter holds an MA in Linguistics and a Bachelor of Arts. He has over 25 years' experience in the Oil & Gas sector.



Pamela Nduku Mutua
Managing Director

Position: Pamela was appointed as the Managing Director beginning 20th January 2021

Skills and experience: She holds an MBA in Strategic Management (2004) from University of Nairobi and a Bachelor of Education Degree (1997) from Kenyatta University. She has over 19yrs experience working in commercial roles specifically brand and marketing for various organizations namely Safaricom, CMC Motors, Danone Baby Nutrition, Coca-Cola, GlaxoSmithKline and Standard Chartered Bank.



Dr. Daniel Kirui
*Independent Non-Executive
Director*

Position: Daniel was appointed to the Board on 14th December 2018. He is the Chair Finance and Administration Committee and member of the Technical Matters Committee of the Board.

Skills and experience: Dr. Kirui holds a PhD in Business Management from the Oklahoma state University, a Masters in International Business Management from Pondicherry University and a Bachelors' degree in Business Management Finance from Moi University. He has over 20 years' experience as a Senior Lecturer at Moi University School of Business and Economics.



Dr. Dorothy M. Mungiria
*Independent Non-Executive
Director.*

Position: Dorothy was appointed on 14th December 2018. She is a member of the Audit committee and the Technical matters committee.

Skills and experience: Dr Dorothy holds a PhD in Nutritional Sciences, from Egerton University, a masters in Foods Nutrition & Dietetics and a Bachelors degree in Education. She has over 10 years' experience in Food and Nutrition Security Research, policy formulation and review. She is a lecturer at Egerton University and a member of Kenya Nutrition and Dietetics Institute.



Magdalene Nzisa Munyao
*Independent Non-Executive
Director*

Position: Magdalene was appointed on 14th December 2018. She is the Chair Technical Committee and a member Finance & Administration committee.

Skills and experience:

Magdalene has vast experience in enforcement and Brand Assurance. She is an advocate of the High court of Kenya.



George K. Murathe
*Independent Non-Executive
Director*

Position: George was first appointed to the Board in October 2015 and re- appointed in December 2018. He is a member of the Technical Matters Committee and member of the Audit committee.

Skills and experience: George has over 30 years' experience in distribution gained at Kenya Wine Agencies Ltd. He holds a BA in Economics from the University of Nagpur India.



CPA, Silas Onyango
Okwiry *Independent Non-
Executive Director*

Position: Silas was appointed on 14th December 2018. He is the chair of the Audit committee and a member of the Technical matters committee.

Skills and Experience: He holds a Masters in Business Management, Forensic Audit specialization from Moi University and Bachelors degree in Business and Economic Studies. He has over 20 years work experience as a private practicing Auditor specializing in Accounting, Finance & Taxation. advice. He holds CPA(K) qualification.



Kennedy Oyaro Nyokwoyo
*Alternate to the PS,
State Department of Trade*

Position: Mr. Oyaro was nominated to the Board in november 2020 as the Alternate to the Pricipal Secretary State Department of Trade & Enterprise Development. He is a Member of the Finance & Administration committee and the Audit Committee.

Skills and experience: Kennedy has over 29 years' experience in Trade matters gained at the Mnistry of Industrialization, Trade and Enterprise Development. He holds a Masters of Business Administration – Strategic Management and Leadership from St. Paul's University and a Bachelors' of Commerce degree in Business Admnistration from University of Nairobi.



Mr. Michael Rono
*Alternate to the Executive Director,
ICDC*

Position: Michael was nominated to the Board in January 2019 as the Alternate to the Executive Director, ICDC. He is a Member of the Finance & Administration, Technical matters and the Audit Committees

Skills and experience:

Michael is the Acting Finance Manager at ICDC Ltd. He holds a Masters' in Business administration from the University of Nairobi and a Bachelors' degree in Accounting. He has over 15 years' work experience in Accounting and Finance and is a member of the Institute of Certified Public Accountants ICPAK and Information Systems Audit and Control Association, ISACA.

Mr. Aggrey Kituyi Wambaya
*Alternate to the PS,
The National Treasury*

Position: Mr Kituyi was nominated to the Board in January 2021 as the Alternate to the Principal Secretary, The National Treasury. He is a Member of the Finance & Administration, Technical matters and the Audit Committees

Skills and experience:

Aggrey holds a



Mrs. Grace Magunga
Company Secretary

Position: Grace was reappointed as the Company Secretary in 2022.

Skills and experience: She has wide experience spanning over 20 years in Legal Matters and Corporate Secretarial Services, gained at KDC. She holds a Bachelor of Law degree from the University of Nairobi and a Diploma in Legal Practice. She is a Certified Public Secretary and a member of the ICPS-K.

Other Appointments: She is the Company Secretary of ICDC, Almasi Beverages Limited, Funguo Investments Ltd and Focus Container Freight Station Limited.

III. MANAGEMENT TEAM



Pamela Mutua Age
47
Managing Director

Position: Pamela was appointed as the Managing Director beginning 20th January 2021

Skills and experience: She holds an MBA in Strategic Management (2004) from University of Nairobi and a Bachelor of Education Degree (1997) from Kenyatta University. She has over 19yrs experience working in commercial roles specifically brand and marketing for various organizations namely Safaricom, CMC Motors, Danone Baby Nutrition, Coca-Cola, GlaxoSmithKline and Standard Chartered Bank.



Ms. Lucy M. Anangwe
Age 43
Head of Finance & Accounts

Position: Lucy was appointed as the Finance & Accounts Manager from April 2016

Skills and experience: Lucy holds an MSc in Finance, a bachelor's degree in Economics and Business Studies, CPA-K and is a member of ICPAK. She has over 15 years' experience in Finance.



Joshua Mukhwana
Age 59
Head of Internal Audit

Position: Joshua was appointed as the Internal Audit Manager from May 2018.

Skills and experience: He holds a Bachelor of Commerce in Finance and is a CPA-K. He has over 20 years' experience in Accounts and Audit, and is a member of ICPAK



Lawrence Bengat
Age 35 Head of
ICT

Position: Lawrence was appointed the ICT Manager and Head of ICT from May 2018.

Skills and experience: Lawrence holds a Bachelors' degree in Business Management & Information Technology and has certification in CCNA. He has over 10 years' experience in ICT.



Eric Lamuka Visavilwa
Age 42
*Head, Supply Chain
Management*

Position: Eric was appointed head of Supply chain Management in September 2018

Skills and experience: Eric holds MBA in Finance and Bachelors in Mathematics & Economics and a professional Diploma in Purchasing and Supplies Management. He has over 10 years' experience in Supply Chain Management gained from private sector.



Joyce Chepkemboi
Age 55
Ag. Head, Sales & Marketing

Position: Joyce was appointed acting head of Sales & marketing in May 2019.

Skills and experience: She holds a bachelors' in Commerce Marketing option, and a higher diploma in HRM. She has over 20 years' experience in sales & marketing and has served in various capacities in the Corporation.



Maureen Dwallo
Age 48
*Head, Human Resource &
Administration*

Position: Maureen was appointed head of Human Resource & Administration in 1st December 2020.

Skills and experience: She holds an MBA Human Resource Management with over 10 years' experience in HR and Administration. She is a member of the Institute of Human Resource Management IHRM

IV. CHAIRMAN'S STATEMENT



Foreword

It is with great pleasure that I present to you the Annual Report and Financial Statements for Kenya National Trading Corporation Ltd for the year 2021.

Business Environment

The country experienced a stable business environment with real GDP growing by an estimated 5.9%. Prior to the COVID-19 Pandemic, Real GDP had been projected to grow at 6% in 2020 and 6.2% in 2021. These have been revised

downwards to only 3% in 2020 and 4.2% in 2021. Key drivers for economic recovery will include increased private consumption, a pick-up in industrial activity and strong performance in the services sector because most of Kenya's GDP is generated by services, especially travel and tourism. Agriculture which contributes about a third to GDP is also expected to recover fast. Inflation is expected to remain within the target range while the current account deficit is projected to remain manageable. Growth will also be driven by ongoing investment by the Government and the Private sector to support implementation of the Big 4 development agenda. As an industry, we need to be adequately prepared to positively face the challenges posed by the COVID-19 Pandemic.

Financial Performance

I am pleased to note that we have delivered impressive results during the year under review. Sales revenues registered commendable growth from 537 million to 999 million, an increase of 86%. This has seen our profit before tax grow from Ksh 1.9 million in 2020 to a profit of Ksh 13.7 million in 2021. The growth is attributed to the Government's intervention through KNTC for farmers to procure subsidized fertilizer and purchase of rice from directly from farmers for onward selling to Government institutions. These measures will go a long way in promoting the Big 4 Development agenda on Food Security. Our Asset base increased from Ksh 3.4 billion in 2020 to Ksh 3.6 Billion in 2021, a growth of 6% while the Shareholders funds increased from Ksh 2.587 Billion in 2020 to Ksh 2.6 Billion in 2021.

Strategic Focus

With the constant economic challenges and unforeseen market disruptions that continue to affect the way we operate our business; we have creatively designed our five-year strategy plan to counter and exploit the interruptions. The COVID-19 pandemic presents a special opportunity to reassess further these challenges. This, we believe, will help us drive the growth of our Sales which is the core of our business. We shall continue looking at new opportunities that can offer market diversification for our customers' needs.

The Year Ahead

Our focus in the year ahead will be to ensure the Corporation's long-term sustainability as we continue to adapt to the challenges and opportunities of the COVID-19 environment. Our priorities will be on the health and wellbeing of our employees, ensuring safe working practices; supporting our communities and the evolving needs of our customers and suppliers; and preserving our financial strength so that we are well-placed to benefit from new opportunities for products and services as they arise.

Although we expect the year ahead to be challenging, we have an agile business model and disciplined focus on our market niches, combined with a robust financial position. These strategic attributes should enable us to deliver a resilient performance in the shorter term and to benefit from the opportunities that our markets offer over the medium and longer term.

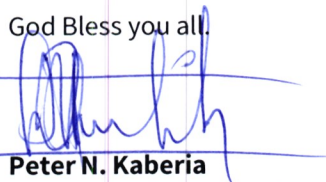
Board Changes

During the year, Mr. Roy Evan Otieno Onyango who had Joined the board in November 2019 was recalled and replaced by Mr. Kennedy Oyaro Nyokwoyo effective November 2020. I want to unreservedly thank Mr Roy Evans Otieno for his invaluable counsel and steering us through the year and wish him all the best in his new assignment.

Appreciation

I take this opportunity to offer my sincere gratitude to the Government of Kenya, our shareholders, our stakeholders, regulatory authorities and agencies that provide support to the Corporation. To our valued customers, we appreciate your sustained support and confidence in us. We value your business and continued partnership. I wish to convey my utmost appreciation to my colleagues in the Board for their invaluable contributions and unwavering dedication, to the management and staff for their tireless effort and steadfast commitment to ensure the Corporation achieves its mandate.

God Bless you all.



Peter N. Kaberia
Chairman of the Board

V. REPORT OF THE MANAGING DIRECTOR



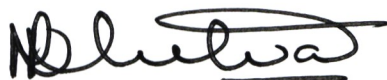
Over the past year, we have embarked on transformative journey to re-invigorate KNTC's operations to become the leading agent for trade and socio-economic transformation in Kenya. We have made decisive changes to make the Corporation fit for purpose in serving the country's dynamic needs as the country works towards economic recovery from the impact of the ongoing COVID-19 pandemic, and getting back on track to realize the Government's Big Four Agenda and the Kenya Vision 2030.

To this end, we have made structural and policy adjustments to be able to fully execute our eight-pronged mandate geared to strengthening the regional supply chain, stabilizing quality of essential commodities and enhancing distribution systems for the Nation. This renewed focus, will be reflected in our new Strategic Plan 2022-2027, which will guide the corporation's operations to ensure KNTC is competitive. The Strategic Plan will keep us on track and guide our reporting along specific milestones, that will ensure the Corporation's turnaround.

The long-term health of our balance sheet will be determined by our continued ability to improve profitability and generate profit. Within this reporting period, we have built a strong sales momentum and invested in building competitive pricing frameworks which has restored confidence in KNTC in the essential supply chains of cement, rice and sugar. We have also improved in our service-delivery and continuing to invest in expanding our human resource and infrastructure to ensure we meet the growing demand for our goods and services. We have begun to reap the benefits of the transformation agenda, as we report a profit of KES 13 million (net) with over KES 100 million (gross) profit from a loss of KES 6 million last year. This is the first time in 13 years that the corporation has posted a profit. To ensure that KNTC is viable as a business, we have cut operational expenses by 2% and improved margins from 9 percent to 12 percent; growing the top line at 44 percent.

Delayed issuance of trade guarantees significantly affected our operations during the year, underperformance of the depots due to insufficient working capital had a significant impact to our competitiveness. We have however, begun addressing these challenges with support from the Cabinet Secretary of Agriculture, Livestock, Fisheries and Cooperatives, and in consultation with the National Treasury. I have also committed to invest in continuous improvement, research and development and spearheaded an ongoing review of processes to ensure that our processes and strategies are up-to-date and relevant to the evolving needs of the market. Customer needs and satisfaction assessments are also underway to guide us as we rebuild trust in the KNTC brand.

Since joining the team in January, I have been deliberate in getting myself acquainted with all our staff, both at the head office in Nairobi and across our depots. I am grateful for their support and commitment which has led to the successful note we are closing the year on. I look forward to convening a team retreat and Strategic Plan Workshop which serve as an orientation to our new strategic direction, and get the team's input to our new Brand Promise, which is essential in rebuilding trust with our customers, and reaffirming our competitiveness in the market as we commence the new year.



Pamela Mutua
Managing Director

VI. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FY 2020/2021

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

Kenya National Trading Corporation Ltd has 3 Key Result Areas and into 10 Strategic objectives within its Strategic Plan for the FY 2019/20- 2022/2023. :

These pillars are as follows:

Pillar 1: Domestic Trade Development and Promotion

Pillar 2: Strengthened Organization Capacities and Resource Management

Pillar 3: Technology & Innovation for effective & efficient service delivery

KNTC develops its annual work plans based on the above 3 pillars. Assessment of the Board's performance against its annual work plan is done on a quarterly basis. The Corporation achieved its performance targets set for the FY 2020/2021 period for its strategic pillars, as indicated in the table below:

Key Result Area	Strategic Objective	Strategies	Activities	KPI	Target		Achievement
					Target for 5 Years	Target for Year 2020/2021	
Trade Development and Promotion	To Position KNTC as the main Supplier of strategic bulk commodities in the Country.	Position KNTC as the preferred supplier and distributor of Agricultural Inputs in the country	Form strategic Partnerships and distribute at least 40,000 tonnes of fertilizer in the plan period	Tonnes distributed	40,000	6,000 Tonnes	8,188 Tonnes
			Form strategic Partnerships and distribute at least 30 tonnes of seeds in the plan period	Tonnes distributed	30 Tonnes	4 Tonnes	6.9 Tonnes
			Enhance sales turnover of Farm equipment and implements to kshs.100 million in the plan period.	Amount sold	100mn	Kshs. 15 Million	Kshs. 0.4 million
		Enhance supplies to Public & private organizations.	Grow business with the existing government agencies & Counties by 10% annually.	% Annual Growth	10%	11%	162%
			Engage at least fifty institutions for trade	No. of New institution s engaged	50	10	16
			Grow business with the existing private organizations by 5% annually.	% Annual Growth	5%	5.3%	8.30%
	To enhance MSMEs access to markets	Provide Market Access for Micro, Small & Medium Enterprises (MSMEs)	Link MSMEs to markets	No of linked MSMEs	50	10	10
		Venture into light Manufacturing in partnership with the private sector	Engage at least 3 partners, sign contracts or Mou	No of Contract s signed	3	1	0

Key Result Area	Strategic Objective	Strategies	Activities	KPI	Target		Achievement
					Target for 5 Years	Target for Year 2020/2021	
	To enhance storage and Trade Development and Promotion distribution of surplus produce by farmers	Upgrade and modernize existing warehouses.	Refurbish and equip the warehouses to international standards.	No. of refurbished warehouses	41	2	1 (Ongoing)
		Establish new modern warehouses in counties	Construct new warehouses on KNTCs unutilized land	counties with new warehouses	3	1	0
	To enhance storage and distribution of surplus produce by farmers	Provide Warehouse Receiving Services (WRS) and ensure seamless connectivity between WRS and KOMEX trading.	Develop, implement, integrate and commission automated WRS for warehousing processes	Functional WRS system	1	1	0
		Provide Collateral Management services	Authorize, monitor and regulate transfer of warehouse receipts between trading parties	Policy	1	1	0
Strengthened Organization Capacities and Resource Management	To Maintain a positive work environment and strong employee engagement	Attract, develop and retain skilled employees	Implement a competitive Remuneration Structure	New structure adopted	1	1	1
Technology & innovation for effective & efficient service delivery	To offer integrated on-line services in an efficient and effective way	Develop and implement a clearly defined Business Application Architecture (BAA)	Integrate E-Procurement system with the Enterprise Resource Planning (ERP)	E-Procurement module operational	100%	75%	50%
			Integrate Customer Relationship Management System (CRM) with the Enterprise Resource Planning (ERP)	CRM Module operational	100%	75%	100%
			Implement an Integrated Board Management Solution (IBMS)	Operational IBMS	100%	100%	80%
		Enhance availability of business systems and ensure continuity of business operations	Upgrade and Maintain ICT Infrastructure	Upgraded infrastructure	100%	50%	70%

VII. CORPORATE GOVERNANCE STATEMENT

Corporate governance is the process by which corporate bodies are directed and controlled with the objective of increasing stake/shareholders value and satisfying them. This is achieved by establishing a system of clearly defined authorities and responsibilities, which result in a system of internal controls that is regularly tested to ensure effectiveness.

At Kenya National Trading Corporation, the Board places a high degree of importance on maintaining a sound control environment and applying the highest standards of business integrity and professionalism in all areas of the Board's activities.

We engage the society on the basis of strong principles of governance and compliance that provide the framework of how we do business. The chairman and the MD ensure good governance at board level and below.

The board regularly reviews its governance on the basis of new legal requirements and best practices. It helps us maintain trust with the employees, suppliers, government, customers and other stakeholders. The Board is responsible for the governance of the Corporation and conducts the business and operations of the Corporation with integrity and in accordance with generally accepted corporate practices, in a manner based on transparency, accountability and responsibility.

Board of Directors

The composition of the Board is compliant with good corporate governance practices. The role of the Chairman and the Managing Director are segregated. The Managing Director is in charge of the day to day running of the business of the Corporation and the Chairman of the Board acts as non-executive director. The current Board is composed of ten Members who possess broad range of expertise, diverse professional background. They are drawn from various ministries and business sectors. The remuneration is based on guidelines on terms and conditions of service for State Corporation's circular of 23rd Nov 2008.

Board Meetings

Board Meetings are held every quarter except with exceptional circumstances. During their meetings the Board reviews the Company performance against the planned strategies and also approves issues of strategic nature

Board Committees

The Board has three committees of which are guided by clear terms of reference. The committees are instrumental in monitoring the corporation operations, conduct of business, systems and internal controls. The committees are as follows:

1. Technical matters Committee
2. Finance and Administrative committee
3. Audit committee

Code of Conduct

The corporation has a code of conduct which seeks to guide employees in ethical conduct of business. All directors, management and employees are expected to observe high standards of integrity and ethical conduct when dealing with customers, staff, suppliers and regulators.

Internal Controls

The effectiveness of the corporation internal control is monitored on a regular basis by the Internal Audit function. The Internal Audit function reviews the corporation compliance with the laid down policies and procedures as well as assessing the effectiveness of the internal control structures.

The Internal Audit function focuses their attention on areas that the corporation could be exposed to greatest risks. The Internal Audit function reports to the Audit Committee of the Board. The corporation has established operational procedures and controls to facilitate proper safeguard of assets and accurate financial reporting.

Conflicts of Interest

All directors and management are under duty to avoid conflict of interest. The directors are required to disclose outside business interests that would conflict with the corporation business.

Going Concern

The directors confirm that the corporation has adequate resources to continue in business for the foreseeable future and therefore to continue to use the going concern basis when preparing the financial statements

VIII. MANAGEMENT DISCUSSION AND ANALYSIS

Operational and Financial Performance

1. Share capital

KNTC has only one class of shares – Ordinary shares of par value Kshs. 20 each. The share capital balance as at 30th June 2021 amounted to Kshs 32,000,000 which is the same as the previous year.

2. Reserves and Surplus Retained Earnings

The net profit from the previous year ended 30th June 2020 amounting to Kshs. 1,908,221 was transferred to the retained earnings, bringing the accumulated loss to Kshs. 255,386,243 as at 30th June 2020. As at 30th June 2021 profit for the year was Kshs 13,688,674 reducing the accumulated loss to Kshs 241,697,571

Shareholders' funds

The total shareholders' fund was Kshs. 2,600,945,206 as at 30th June 2021 compared with Kshs. 2,587,256,534 as at 30th June 2020

3. Trade and Other Receivables

The trade and other receivables amounted to Kshs. 411,249,548 as at 30th June 2021 (net of provision for doubtful debts amounting to Kshs 42,131,735), compared to Kshs. 197,185,026, as at 30th June 2020 (net of provision for doubtful debts amounting to Kshs 36,951,104) as at 30th June 2020. Except for the specific debts provided for, these debts are considered good and realizable.

4. Inventories

Inventories amounted to Kshs. 397,926,876 as at 30th June 2021 (net of provision for obsolescence amounting to Kshs 549,708), compared to Kshs. 483,606,279. Net of provision of Kshs 502, 680 in the previous year. The Corporation was able to dispose of excess inventories of rice and renewal of trade guarantees contributed positively to the stocking of our depots in this financial year.

5. Cash and cash equivalents

The balance in our current accounts stands at Kshs 209,214,041 as at 30th June 2021 as compared to Kshs 159,116,397 as at 30th June 2020.

The Corporation did not invest in short term deposits as at 30th June 2021 while as at 30th June 2020 the Corporation had invested Kshs 100 million with the Co-operative Bank of Kenya.

Results of our Operations

1. Income

All of the revenues for the year ended 30th June 2021 were domestic revenues. Our revenues are generated primarily from sales of products, commission and rent from our leased warehouses. The total income, net of costs was Kshs 193,609,068 compared with Kshs 152,186,003 from the previous year representing a 27 % growth.

Gross profit

The gross profit during the year was Kshs. 116,481,220 compared to Kshs.55,610,470 over the same period last year.

2. Expenditure

a) Personnel Emoluments

Personnel Emoluments amounted to Kshs. 64,799,385 which represented 32.8% of revenues compared to 48,848,577 over the same period last year. Staff costs relate to salaries and benefits paid to employees.

b) Administration expenses

Administration expenses amounted to Kshs 53,378,805 compared to the previous year amounting to Kshs 41,550,154

c) Selling & Marketing Costs

Selling & distribution and Marketing costs amounted to Kshs 19,974,890 compared to Kshs. 12,538,191 for the previous year.

d) Directors Emoluments

Directors' emoluments increased from Kshs. 12,380,173 as at 30th June 2021 compared to Kshs 9,218,260 as at 30th June 2020.

3. Operating profits

KNTC made an operating profit before interest & tax of Kshs. 19,387,997 in 2020/21 compared to operating profit before tax of Kshs 6,089,173 over the same period last year.

4. Earnings per Share (EPS)

Our basic EPS was 43% during the year ended 30th June 2021 while the previous year was 5.96%. The outstanding shares used in computing the basic EPS were 1,600,000 @ Kshs 20 per share.

5. Liquidity

Our growth has been financed largely through cash generated from financing activities. The net cash used for our operations was Kshs 15,211,034. Net cash used for investing activities was Kshs. 10,403,776 while Net cash generated by financing activities was Kshs.75,712,454 for the year ended June 30th 2021 largely contributed by government grants amounting to Kshs 120 million.

IX. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

KNTC exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy, which is founded on 3 pillars:

- Putting the customer/Citizen first,
- Effective and efficient delivery of relevant goods and services, and
- Improving operational excellence.

Below is a brief highlight of our achievements in each pillar

1. Sustainability strategy and profile

At KNTC, we aspire "to use our warehouse network, our products and our services to transform the lives of Kenyans". Our vision is based on responsible, ethical business and transformational products and services

KNTC has integrated sustainability into our corporate strategy. In making the SDGs a central pillar of our business, we have made sustainable development a part of the Corporation's business culture. We continue to translate our sustainability goals into concrete plans, from the medium-term objectives to simple daily activities that could be put into practice throughout the Corporation. The Board of Directors is responsible for ensuring that sustainability is at the heart of our business strategy. The management assumes the responsibility of leading, implementing, monitoring and reporting on sustainability initiatives into the day-to-day operations of the Corporation

During the year under review, the sustainability priorities of the Corporation were keeping KNTC customer-focused. We established and continue to establish numerous partnerships to enable us to achieve our goals and have begun integrating the goals into our employees' annual performance targets.

2. Environmental performance

Reducing the environmental impacts of what we do is a key priority for us. At KNTC, we believe that reforestation will play a crucial role in reducing our carbon footprint and in curbing air pollution. We have therefore made a strategic decision to become a major partner in the afforestation and reforestation programmes in Kenya. We have set an ambitious target of planting 100,000 trees by 2025, and are working closely with the Ministry of Environment and Forestry to help the country achieve the goal of 10% forest cover by 2022. In January 2021, 1,000 trees were planted at the Corporation's head office.

3. Employee welfare Corruption Prevention

We recognise that corruption drives inequality by preventing fair access to economic power and basic social needs. Therefore, we take steps to cultivate awareness and put anti-corruption monitoring and corrective measures in place, and drive behaviour change in the society through collective action initiatives. We have taken steps to cultivate awareness and put anti-corruption monitoring and corrective measures in place, and drive behaviour change in society through collective action initiatives. In FY2020/21, anti-corruption training of contract and full-time staff was conducted. In FY2020/21, we provided customised anti-corruption training on a department-by-department basis.

4. Market place practices

Our year-on-year tax remittances have contributed to the country's economic growth. Over the past five years.

5. Community Engagements-

Meeting the society's expectations of the Corporation involves playing a positive role in communities where we operate and in wider society. As a corporation, we make a conscious effort to participate in and contribute to the development of the communities in which we operate. We do this by creating jobs and using local SME manufacturers and suppliers under the Buy-Kenya-Build-Kenya initiative. We currently generate direct and indirect employment and business opportunities for more than 1,000 Kenyans in farming, manufacturing and distribution.

X. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2021 which show the state of the Corporation's affairs.

Principal activities

The principal activities/mandate of the Corporation are:

1. Participating in the promotion of wholesale, retail business and e-trade in line with Vision 2030 and big 4 agenda, the medium-term plan and the parent Ministry's Strategic Plan.
2. Promoting the development of SMEs markets, expansion and diversifications of trade in line with the Government Policy.
3. Partnering with other key players to avail relevant products/input for the agricultural sector.
4. Improving and strengthening the supply chain and distribution systems for both the formal and informal sector.
5. Stabilizing consumer commodity prices by ensuring balance in supply and demand through availability of stocks/goods in the country.
6. Being a Procurement Agent for the Government and general public at a minimum fee.
7. Participating in distribution of goods and services in special economic zones.

Results

The results of the Corporation for the year ended June 30, 2021 are set out on page 1-31

Dividends

The Directors do not recommend the payment of dividends for the year.

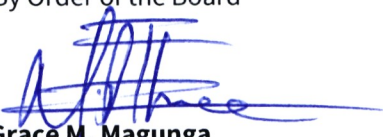
Directors

The members of the Board of Directors who served during the year are shown on page i,iii and iv.

Auditors

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

By Order of the Board

for 

Grace M. Magunga
Company Secretary

Date: 24/06/2022

XI. STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of the KNTC's financial statements, which give a true and fair view of the state of affairs of the Corporation for and as at the end of the financial year ended on June 30, 2021. This responsibility includes:

- I. Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- II. Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the 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; and
- 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 judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and the State Corporations Act.

The Directors are of the opinion that KNTC's financial statements give a true and fair view of the state of the Corporation's transactions during the financial year ended June 30, 2021, and of the Corporation's 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 financial statements as well as the adequacy of the systems of internal financial control.

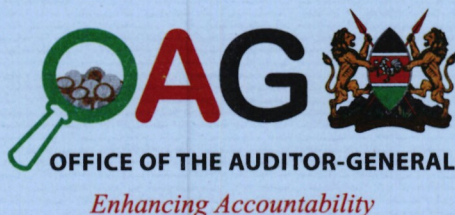
Approval of the financial statements

The Kenya National Trading Corporation's financial statements were approved by the Board on 29th September 2021 and signed on its behalf by:


Peter N. Kaberia
Board Chairman
Pamela Mutua
Managing Director

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA NATIONAL TRADING CORPORATION LIMITED FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

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

- A. Report on the Financial Statements which considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations which have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya National Trading Corporation Limited set out on pages 1 to 30, which comprise the statement of financial position as at 30 June, 2021, 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 Kenya National Trading Corporation Limited as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unsupported Leases

As reported in the previous year, the statement of financial position reflects balances of Kshs.13,623,155, Kshs.10,134,694, Kshs.2,294,056 and Kshs.12,556,443 in respect of rent leases, lease liabilities (non-current), lease liabilities (current) and right of use asset respectively, and as disclosed in Notes 30, 31 and 21 in the financial statements. However, Management did not provide for audit, the lease agreements, contracts and other documents relating to the lease assets and liabilities reported in the statement of financial position as at 30 June, 2021.

In the circumstances, the accuracy, validity and completeness of the lease balances reflected in the financial statements could not be confirmed.

2. Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance totalling Kshs.2,585,378,148 as at 30 June, 2021. However, the following anomalies were noted;

2.1 Untitled Land

As disclosed in Note 20 to the financial statements, the property, plant and equipment balance includes an amount of Kshs.1,699,210,000 relating to land. However, as previously reported, title deeds for land valued at Kshs.55,204,510 located in Nairobi, Nanyuki, Nyahururu and Kapsabet were not presented for audit review. Further, other records of the Corporation indicate that, there is still an unresolved dispute between the Corporation and other parties in regard to ownership of a plot of land of undisclosed size and value located in Bungoma County. In addition, the Corporation's plots in Nanyuki, Nyahururu and Naivasha are not fenced to secure them from encroachment and land grabbing.

2.2 Unsupported Diminution of Land Value

As previously reported, Management made a provision for loss amounting to Kshs.63,390,540 in respect to plots located in Loita Street in Nairobi and in Nakuru. No

plausible explanation was provided for the adjustments. Further, approval granted by the Board of Directors and The National Treasury was not provided for audit review. As a result, it was not possible to confirm that the loss amounting to Kshs.63,390,540 resulting from the adjustment was valid and reasonable.

In addition, available information indicated that a section of the plot of land in Nakuru had been encroached upon and registered in the name of a third party. Further, Management disclosed that the plot on Loita Street was irregularly surrendered to the Commissioner of Land. Management further indicated that the Cabinet Secretary, Ministry of Agriculture, Livestock, Fisheries and Co-operatives and the Directorate of Criminal Investigations were handling the matter. In the absence of relevant documentary evidence, the consideration and legality of the reported surrender of the plot to the Commissioner of Land could not be confirmed.

In the circumstances, the ownership, valuation and completeness of the property, land and equipment balance of Kshs.2,585,378,148 as at 30 June, 2021 could not be confirmed.

3. Trade and Other Receivables

3.1 Long Outstanding Debts

As previously reported, the statement of financial position reflects trade and other receivables balance of Kshs.411,249,548, as disclosed in Note 24 to the financial statements. This balance represents an increase of Kshs.214,064,521 or 109% from the previous year balance of Kshs.197,185,027. Included in the trade and other receivables balance is Kshs.5,417,733, Kshs.24,816,297, Kshs.9,334,817, Kshs.65,025,910 and Kshs.1,672,192, which relates to Government of Kenya (GOK) debts, private debts, claims receivable and bounced cheques respectively, which have been outstanding for more than one year. Similarly, as previously reported, the rent receivable balance of Kshs.100,888,173 includes rent arrears of Kshs.3,198,930 and Kshs.44,726,594, held by former tenants and Uchumi Supermarkets Limited, respectively.

In the circumstances, the recoverability of the receivables is doubtful.

3.2 Provision for Bad and Doubtful Debts

As previously reported, the statement of financial position reflects trade and other receivables of Kshs.411,249,548, as disclosed in 24 (b) to the financial statements. This balance resulted from deduction of provision for doubtful debts of Kshs.42,131,735, from the gross amount of the receivables of Kshs.453,381,283. However, the provision for doubtful debts is not supported by any documentary evidence. In addition, the opening balance of Kshs.36,951,104 includes Kshs.28,690,320 which is historical and therefore uncollectable, and it is not clear why Management with the approval of the Board, has not considered writing the same off by reducing the carrying amount, as provided for under International Financial Reporting Standards (IFRS) 9.

Further, the receivables balance of Kshs.411,249,548 includes an amount of Kshs.100,888,173 for rent receivable, which further includes an amount of

Kshs.14,027,964 relating to rent receivables owed by tenants for more than two months contrary to paragraph 2(c) of the leases signed between the entity and the tenants.

In the circumstances, the completeness and accuracy of the trade and other receivables balance totalling Kshs.411,249,548 could not be confirmed.

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

Key Audit Matters

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

Other Matter

Late Exchequer Releases

The statement of profit or loss and other comprehensive income reflects recurrent Exchequer releases totalling Kshs.120,000,000, as disclosed in Note 18 to the financial statements. However, the Corporation received the Exchequer release from The National Treasury on 29 June, 2021.

In the circumstances, the delayed Exchequer releases may have affected the Corporation's ability to implement its planned programmes, thus negatively impacting on its trading activities and performance during the year under review.

Other Information

The Management is responsible for the other information, which comprises key entity information, Chairman's statement, report of the chief Managing Director, statement of performance against predetermined objectives, corporate governance statement, management discussion and analysis, environmental and sustainability reporting, report of the directors and statement of Board of Directors' responsibilities. The other information does not include the financial statements and my auditor's report thereon.

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Irregularities in Board Expenses

1.1 Transport and Mileage Allowance for Board Members

Included in the Directors' emoluments amount of Kshs.12,380,173 reflected in the statement of profit or loss and other comprehensive income is an amount of Kshs.1,984,631 which related to mileage allowance to Board Members. Review of documents provided for audit revealed that a Board Member was paid mileage allowance of Kshs.44,648 for every meeting attended, totalling to Kshs.714,371 in the year under review. This is contrary to the circular ref. OP/CAB.9/1A issued in March, 2020 which caps mileage allowance at Kshs.35,000 per Board/Committee attended, resulting to an overpayment of Kshs.9,648 for every meeting attended and an excess amount totalling to Kshs.154,371 for the whole year. Further, there was no approval for the excess allowance paid as required under subsection C(6) of the same circular.

1.2 Budget and Expenses

The circular no. OP/CAB.9/1A issued to Management of State Corporations on 11 March, 2020 caps Board budget at Kshs.30,000,000 or 5% of the Corporation's operations and maintenance budget, whichever is less. However, 5% of the Corporation's total expenditure of Kshs.174,221,071 amounts to a Board budget of Kshs.8,711,054, against Directors' emoluments actual amount of Kshs.12,380,173 resulting to an excess expenditure of Kshs.3,669,119. There was no evidence that approval was sought and obtained from the Cabinet Secretary – The National Treasury for the excess expenditure.

1.3 Controls for Board Meetings

Review of documents provided in respect to Director's emoluments revealed that the Board held seven (7) instead of the maximum of six (6) meetings allowed under the State Corporations Advisory Committee circular no. OP/CAB.9/1A of 11 March, 2020, resulting to an excess of one (1) full Board meeting. There was no evidence that approval was sought and obtained from the Cabinet Secretary, for the excess meeting, as required under sub-section 3 of the Circular.

1.4 Board Medical Expenses

The statement of profit or loss and other comprehensive income reflects Directors' emoluments of Kshs.12,380,173, as disclosed in Note 12 to the financial statements.

Included in this amount is Kshs.621,022 relating to Board medical cover. According to documents provided for audit, a contract for provision of medical cover for Board Members was awarded to an insurance company in the financial year 2019/2020, through request for quotation procurement method. The Company, which was the lowest bidder, was awarded the contract at Kshs.434,276 for one year covering the period between 1 January, 2019 to 31 December, 2020.

During the year under review, the medical cover was renewed at a contract sum of Kshs.607,729, which differs with the previous year's amount of Kshs.434,276, resulting to an unexplained variance of Kshs.173,453 or 40%. However, fresh procurement of the services was not carried out as required by Section 139(6) of the Public Procurement and Asset Disposal Act, 2015. In addition, the policy documents and contract provided for verification were not binding since they were not signed by both parties.

In the circumstances, Management was in breach of the law.

2. Refurbishment of Kisumu Warehouse

The statement of financial position reflects property, plant and equipment balance of Kshs.2,585,378,148, as disclosed in Note 20 to the financial statements. Included in this amount is addition to work-in-progress of Kshs.8,562,539 which further includes an amount of Kshs.1,625,573 paid to a contractor for refurbishment of the Kisumu warehouse. The contract was terminated due to non-performance and unsatisfactory work, which resulted in damage of the rice stored in the warehouse due to a leaking roof. The contractor was surcharged Kshs.210,000 for damaged rice but no evidence that the amount was received was provided for audit review. Further, no certificates of work done of Kshs.1,625,573 were provided for audit review.

In the circumstances, there was no evidence that the Corporation got value for the money spent on the terminated contract.

3. Human Resource Management

During the year under audit, the Kenya National Trading Corporation Board undertook recruitment of the Managing Director and Human Resource Manager. However, minutes of the interviewing meeting in respect of the Managing Director's recruitment by the Board of Directors with recommendations of best candidates were not provided for audit review. Further, the score sheets for the panellists and the ranking criteria were not provided for audit review.

In the circumstances, the Board was in breach of the State Corporations Advisory Committee guidelines on recruitments.

4. Avoidable Interests and Penalties

The statement of financial position reflects trade and other payables balance of Kshs.219,531,751 and as disclosed in Note 36 to the financial statements. The balance includes an amount of Kshs.54,236,765 as accrued charges, out of which Kshs.20,487,308 and Kshs.13,269,370 relate to Nairobi City County and Kenya Railways

respectively. However, major parts of the two accounts comprise of interests and penalties levied on the long outstanding arrears which would otherwise have been avoided had the Management settled the debts on time. In the absence of timely payment of the debts, the interests and penalties would escalate.

In the circumstances, the Corporation incurred accrued charges totalling Kshs.33,756,678, which could have been avoided.

5. Records at the Registrar of Companies

Review of the records of the Corporation with the Registrar of Companies as at 28 April, 2022 revealed that the annual returns for the year 2021 were not filed, with the last return filed for year 2010. In addition, two shares held by a nominee were transferred to another shareholder, however, the records of how the shares moved from one nominee to another were not available as per the registrar. Further, the records of the Company with the Registrar of Companies did not reflect the current Directors of the Company. This is contrary to Section 138 of the Companies Act, 2015 which states the duty of the Company is to notify the Registrar any change of Directors and Section 705 which requires the submission of returns once every year.

In the circumstances, Management was in breach of the law.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. In my opinion, adequate accounting records have been kept by the Corporation, so far as appears from the examination of those records; and,
- iii. The Corporation's financial statements are in agreement with the accounting records and returns.

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

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

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

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

The Board of Directors is responsible for overseeing the Company'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 overall 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 which 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 which govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229 (6) of the Constitution and submit the audit report in compliance with Article 229 (7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229 (7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control which 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 which would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the 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 which may cast significant doubt on Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner which achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control which 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 which may reasonably be thought to bear on my independence, and where applicable, related safeguards.


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

27 July, 2022


XIII. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30TH JUNE 2021

	Note	2020/2021 Kshs	2019/2020 Kshs
REVENUES			
Sales	6	999,143,054	537,394,740
Cost of Sales	7	(882,661,833)	(481,784,270)
Gross Profit		116,481,220	55,610,470
Commission Income	8	54,000	11,299,549
Trading Income		116,535,220	66,910,019
Other Income	9	77,073,847	85,275,984
Total Revenues		193,609,068	152,186,003
OPERATING EXPENSES			
Administration Costs	10	53,378,805	41,550,154
Personnel Emoluments	11	64,799,385	48,848,577
Directors Emoluments	12	12,380,173	9,218,260
Selling & Distribution Costs	13	19,974,890	12,538,191
Depreciation of Property & Equipment	14	23,474,703	31,615,028
Other Expenses	15	213,114	2,326,620
Total Operating Expenses		174,221,071	146,096,830
Operating Profit/(Loss)		19,387,997	6,089,173
Finance Costs	16	1,275,741	3,151,360
Profit/(Loss) Before Taxation		18,112,256	2,937,813
Income Tax Expense/(Credit)	17(a)	4,423,582	1,029,592
Profit/(Loss) After Taxation		13,688,674	1,908,221
OTHER COMPREHENSIVE INCOME			
(Loss)/Profit for the Year		13,688,674	1,908,221
Grants from National Government	18	120,000,000	680,000,000
Total Comprehensive income/(Loss)		133,688,674	681,908,221
Earnings per share – Basic and diluted	19	43%	6%
Dividends per Share		-	-

XIV. STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2021

		<u>2020/2021</u>	<u>2019/2020</u>
ASSETS	Note	Kshs	Kshs
Non-Current Assets			
Property, plant and equipment	20	2,585,378,148	2,592,125,064
Right of Use of Assets	21	12,556,443	6,378,480
Intangible assets	22	16,726,172	16,906,172
Total Non-Current Assets		2,614,660,762	2,615,409,716
Current Assets			
Inventories	23	397,926,876	483,606,279
Trade and other receivables	24	411,249,548	197,185,026
Income Tax Recoverable	25	4,688,721	8,291,694
Bank and cash balances	26	209,214,041	159,116,397
Total Current Assets		1,023,079,186	848,199,396
Total Assets		3,637,739,948	3,463,609,113
EQUITY AND LIABILITIES			
Capital and Reserves			
Share Capital	27	32,000,000	32,000,000
Revaluations Reserve	28	2,810,642,777	2,810,642,777
Retained Earnings	29	(241,697,571)	(255,386,243)
Capital and Reserves		2,600,945,206	2,587,256,534
Long Term Liabilities			
Rent Lease Deposits	30	13,623,155	8,061,644
Lease Liabilities (Non-Current Portion)	31	10,134,694	5,961,709
Deferred Tax Liability	32	47,897,364	64,522,876
Rice Fund	33	660,000,000	660,000,000
Total Non-Current Liabilities		731,655,213	738,546,229
Current Liabilities			
Lease Liabilities (Current Portion)	31	2,294,056	1,912,469
Finance Leases	35	1,686,722	10,505,046
Trade and other payables	36	219,531,751	125,388,836
Deferred Income (Grant)	34	81,627,000	
Total Current Liabilities		305,139,529	137,806,351
TOTAL EQUITY AND LIABILITIES		3,637,739,948	3,463,609,113

The financial statements were approved on 29th September 2021 and signed on its behalf by:



Lucy M. Anangwe
 Finance & Accounts Manager
 ICPAK Reg No. 9600



Pamela N. Mutua
 Managing Director



Peter Kaberia
 Board Chairman

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

	SHARE CAPITAL	REVALUATIONS RESERVE	RETAINED EARNINGS	TOTAL
	Kshs	Kshs	Kshs	Kshs
Balance as at 30th June 2019	32,000,000	2,810,642,777.00	(255,710,418)	2,586,932,359
Prior year Adjustments			(1,584,047)	(1,584,047)
Restated Balance as at 1st July 2019	32,000,000	2,810,642,777	(257,294,465)	2,585,348,312
Net Profit/(Loss) for the year			1,908,221	1,908,221
Balance as at 30th June 2020	32,000,000	2,810,642,777	(255,386,244)	2,587,256,533
Balance as at 1st July 2020	32,000,000	2,810,642,777	(255,386,244)	2,587,256,533
Net Profit/(Loss) for the year			13,688,6743	13,837,905
Balance as at 30th June 2021	32,000,000	2,810,642,777	(241,697,571)	2,600, 945,207

XVI. STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30TH JUNE 2021

	Note	<u>2020/2021</u>	<u>2019/2020</u>
		Kshs	Kshs
CASHFLOWS FROM OPERATING ACTIVITIES			
Net cash generated from/(used in) operating activities	40(a)	(15,211,034)	(492,744,473)
CASHFLOWS FROM INVESTING ACTIVITIES			
Acquisition of Computers, furniture & Office Equipment	20	(7,402,748)	(3,411,855)
Buildings refurbishment Work in Progress	20	(8,562,539)	(6,793,013)
Purchase of Computer Software	22	-	(360,000)
Increase/(Decrease) in Rent lease deposits	30	5,561,491	(1,828,558)
Net cash generated from/(used in) investing activities		(10,403,776)	(12,393,426)
Cashflows from Financing Activities			
Proceeds from Borrowings (Finance Leases)	35	6,054,922	2,019,298
Repayment of Borrowings (Finance Leases)	35	(16,142,453)	(10,310,036)
Recurrent grant Received	18	120,000,000	660,000,000
Payments in relation to grant income	34	(38,373,000)	
Development Grant Received	18	-	20,000,000
Increase in Non-Current Lease Liabilities	31	4,172,985	(9,462,126)
Net cash generated from/(used in) financing activities		75,712,454	662,247,136
Increase/(Decrease) In Cash & Cash Equivalents		50,097,645	157,109,237
Cash & Cash Equivalents at the beginning of the Year	26	159,116,397	2,007,160
Cash & Cash Equivalents at the end of the Year	26	209,214,041	159,116,397

**XVII. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
 FOR THE PERIOD ENDED 30TH JUNE 2021**

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	Percentage Difference	Note
	2020-2021	2020-2021	2020-2021	2020-2021	2020-2021	2020-2021	
	Kshs	Kshs	Kshs	Kshs	Kshs	%	
Revenue							
Sales	488,550,000	448,139,000	936,689,000	999,143,054	62,454,054	7%	1
Cost of Sales	(429,924,000)	(404,549,000)	(834,473,000)	(882,661,833)	(48,188,833)	6%	2
Net Sales	58,626,000	43,590,000	102,216,000	116,481,221	14,265,220	14%	3
Commission Income	6,000,000	(6,000,000)	-	54,000	54,000	100%	
Rental Income	101,194,648	(25,102,648)	76,092,000	71,062,557	(5,029,442)	-7%	
Transport Income	7,200,000	(3,692,000)	3,508,000	2,820,548	(687,452)	-20%	4
Warehousing Income	10,020,000	(4,661,000)	5,359,000	-	(5,359,000)	-100%	4
Interest Income		-		2,942,466	2,942,466	100%	4
Parking Income				248,276	248,276	100%	4
Government Grants - Recurrent				120,000,000	120,000,000	100%	5
Total Income	183,040,648	4,134,352	187,175,000	313,609,068	126,434,068		
Expenses							
Personnel Emoluments	54,602,175	10,406,825	65,009,000	64,799,385	209,615	0%	
Administration Costs	58,235,767	4,376,233	62,612,000	53,378,805	9,233,195	15%	6
Board Expenses	8,376,964	3,813,036	12,190,000	12,380,173	(190,173)	-2%	
Selling & Distribution Costs	11,095,040	(1,036,040)	10,059,000	19,974,890	(9,915,890)	-99%	7
Depreciation	24,028,738	3,716,262	27,745,000	23,474,703	4,270,297	15%	8
Finance Cost	3,300,000	1,358,000	4,658,000	1,275,741	3,382,259	73%	9
Taxation	7,512,606	(6,041,606)	1,471,000	4,423,582	(2,952,582)	-201%	10
Total Expenditure	167,151,290	16,592,710	183,744,000	179,707,279	4,036,720	2%	
Surplus for the Period	15,889,358	(12,458,358)	3,431,000	133,901,789	130,470,789		

BUDGET VS ACTUAL PERFORMANCE NOTES

- Sales:** The forecast sales to the end of the year were over achieved by 6.6% as a result of improved uptake of rice by Government institutions , increased sales to county Governments. Product lines that had the highest contribution to the sales were rice with 49%, fertilizers 29% , Farm inputs and Magadi products at 7.5% and 7.1% respectively.
- Cost of Sales;** Budgeted cost of sales amount Ksh. 429,924,000 was adjusted upwards to Ksh. 834,473,000. This budget was surpassed by 5.7% as a result of increased sales.
- Net Sales:** This represents the gross profit earned from sale of products. In the original budget, net sales had been projected at Ksh. 58.6 million but was adjusted upwards to ksh. 102.2 million. The Corporation realized a final gross profit of Ksh 116.4 million which represented an over performance of 13.9%. This was attributed to the overperformance on sales

4. **Other Income;** Rental income was adjusted from ksh. 101.19 million to ksh. 76.09 million due to the slow uptake of vacant go downs. Actual performance fell below the target by ksh. 5.02 million which is an equivalent of negative 6.6 %. This was attributed to vacant go downs remaining unoccupied throughout the year. The Corporation requires funds to upgrade the state of the warehouses in order to improve the demand for the go downs. The Corporation did not receive any warehousing income as a result of the poor state of the warehouses.

The Corporation introduced other revenue streams in **Parking income** and **Interest Income**. The same hadnot been budgeted for in the year.
5. **Government Grants: Recurrent;** During the year, the Corporation received a grant of Ksh. 120 million to be utilized on rice remilling, review of the Strategic plan and valuation of assets.
6. **Administration costs :** Administration costs were adjusted upwards by ksh. 4.3 million to cater for increased operations from the rice business line. Actual expenditure fell short of the budget by 15%. Some of the planned activities did not take place due to the COVID 19 pandemic.
7. **Selling and Distribution costs :** Selling and distribution costs were adjusted downwards by ksh. 1 million. The actual expenditure exceeded by ksh. 9.8 million . This was as aresult of extensive market outreach and promotional activites that were undertaken during the year and the lifting of some of the COVID-19 prevention measures.
8. **Depreciation:** Depreciation was adjusted upwards by ksh. 3.7 million. Actual budget budget fell short of the same amount due to work in progress on the refurbishment of Kisumu go down.
9. **Finance Cost:** Finance costs were adjusted upwards by Ksh.1.35 million to cater for the additional borrowing occasioned by the staff medical scheme. As at 30th June 2021, the budget had been underspent by Ksh.2.3 million as the Corporation realized savings in interest from the negotiations with ICDC on accrued interest.
10. **Taxation:** The Corporation reduced provision for taxation by ksh. 6 million due to the anticipated reduction in budgeted profits. Provision for taxation however surpassed the budgeted amount by ksh.1.9 million due to the realized pre-tax profits.

XVIII. NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Kenya National Trading Corporation Ltd was established under the Companies Act (Cap 486) in 1965. At cabinet level, the Corporation who is represented by the Cabinet Secretary for the Ministry of Agriculture, Livestock Fisheries & Co-operatives is responsible for the general policy and strategic direction of the Corporation. The principal activity of the Corporation is to Promote and increase wholesale and retail trade. The Corporation also participates in the distribution of a wider range of products such as; Cement, Lime, Fertilizer, Magadi Salts, Paints, Building Materials, Human Salt, Farm inputs and products, Plastic ware, Sugar etc.

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 judgment in the process of applying the Corporation's accounting policies. The areas involving a higher degree of judgment or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in the Notes

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

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

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

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2021

Standard/Amendment to a standard	Effective date	Impact
<i>IFRS 16: Leases (Issued 13 January 2016)</i>	On or after 1 Jan 2019	<p>IFRS 16 introduces a new lessee accounting model, which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.</p> <p>Application of IFRS 16 requires right-of-use assets and lease liabilities to be recognised in respect of most operating leases where the Company is the lessee.</p> <p>The provisions of IFRS 16 have been applied in these financial statements. Assessments for Right of use assets and lease liabilities have been recognised with a corresponding decrease of the net amount in retained earnings.</p>
<i>IFRIC 23: Uncertainty Over income tax treatments</i>	On or after 1 Jan 2019	<p>The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:</p> <ul style="list-style-type: none"> • Whether tax treatments should be considered collectively • Assumptions for taxation authorities' examinations • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates • The effect of changes in facts and circumstances <p>The application of this amendment did not result in any impact on the financial statements.</p>
<i>Amendments to IFRS 9: Prepayment Features with Negative Compensation (issued in October 2017)</i>	On or after 1 Jan 2019	<p>The amendments allow entities to measure prepayable financial assets with negative compensation at amortised cost or fair value through other comprehensive income if a specified condition is met.</p> <p>The application of this amendment did not result in any impact on the financial statements.</p>
<i>Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (issued in October 2017)</i>	On or after 1 st Jan 2020	<p>The amendments clarify that an entity applies IFRS 9, rather than IAS 28, in accounting for long-term interests in associates and joint ventures. The application of this amendment did not result in any impact on the financial statements.</p>
<i>Amendments to IAS 23: Annual Improvements to IFRSs 2015–2017 Cycle (issued in December 2017)</i>	On or after 1 st Jan 2019.	<p>The amendments clarify that the costs of borrowings made specifically for the purpose of obtaining a qualifying asset that is substantially completed can be included in the determination of the weighted average of borrowing costs for other qualifying assets. The application of this amendment did not result in any impact on the financial statements</p>

Standard/Amendment to a standard	Effective date	Impact
<i>Amendments to IAS 1 and IAS 8: Definition of material</i>	On or after 1 st Jan 2019.	The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency. The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted. The application of this amendment did not result in any impact on the financial statements.

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

Standard	Effective Date	Impact
<i>IFRS 17 Insurance Contracts (Issued 18 May 2017)</i>	1 Jan 2021	IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 <i>Insurance Contracts</i> as of 1 January 2021.
<i>Amendments to References to the Conceptual Framework in IFRS Standards (Issued 29 March 2018)</i>	1 Jan 2020	Together with the revised <i>Conceptual Framework</i> published in March 2018, the IASB also issued <i>Amendments to References to the Conceptual Framework in IFRS Standards</i> . The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised <i>Conceptual Framework</i> . Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASB framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised <i>Conceptual Framework</i> .

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.

iii) Early adoption of standards

The Corporation did not early – adopt any new or amended standards in year 2021.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) **Revenue recognition**

Revenue is recognized 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 recognized 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) **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) **Rental income and warehousing** income is recognized in the income statement as it accrues using the effective lease agreements.
- iii) **Commission income** is recognized as it accrues.
- iv) **Interest income** comprises interest receivable from bank deposits, and is recognised in profit or loss on a time proportion basis using the effective interest rate method.
- v) **Parking income and transport income** is recognized in the income statement as it accrues.
- vi) **Grants from National Government** are recognised 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.

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.

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. 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 recognized 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 costs 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 are:

Buildings and civil works	2%
Machinery & Office Equipment	15%
Motor vehicles	20%
Computers and related equipment	33.33%
Furniture and fittings	15%

Depreciation charge is recognized partly in the year of asset purchase and partly in the year of asset disposal. 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.

e) **Intangible assets**

Intangible assets comprise purchased computer software, licenses and website development which are capitalized on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortized over three years from the year that they are available for use.

f) **Amortization and impairment of intangible assets**

Amortization 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 recognized so that the asset is written down immediately to its estimated recoverable amount.

g) **Investment property**

Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation, and which are not occupied by the Corporation, are classified as investment property under non-current assets.

Investment property is carried at fair value, representing open market value determined periodically by independent external values. Changes in fair values are included in profit or loss in the income statement.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

h) **Leases**

The Corporation has leases for the godowns/depots in Kitale, Machakos, Wote and Meru. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate (such as lease payments based on a percentage of sales) are excluded from the initial measurement of the lease liability and asset. The Corporation classifies its right-of-use assets in a consistent manner to its property, plant and equipment (see Note 21).

i) **Inventories**

Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises purchase price, import duties, transportation and handling charges, and is determined on the First in first out (FIFO) method.

j) **Trade and other receivables**

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

k) **Taxation**

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

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

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

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

l) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank. Bank account balances include amounts held at the various commercial banks at the end of the financial year.

m) Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Finance charges are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalized as part of the cost of the project.

n) Trade and other payables

Trade and other payables are non-interest bearing and are carried at amortized 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.

o) Retirement benefit obligations

The Corporation operates a defined contribution staff retirement scheme for its current employees. The scheme is administered by Insurance Company of East Africa (ICEA). The Corporation's contributions to the defined contribution retirement benefit scheme are charged to the income statement account in the year to which they relate. The assets of funded scheme are held independently in a separate trustee administered funds account.

The Corporation also contributes to the National Social Security Fund (NSSF). The company's contributions to the defined contribution scheme and NSSF are charged to the profit & loss account in the year to which they relate. The corporation'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.

p) Provision for staff leave pay

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

q) **Budget information**

The original budget for FY 2020-2021 was approved by The National Assembly in April 2019. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Corporation upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Corporation recorded additional appropriations on the 2020-2021 budget following the Board of Directors' approval.

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 with the exception of grant income which is recognised on a receipts basis 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.

r) **Comparative figures**

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

s) **Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2021.

5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Corporation'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.

Estimates and assumptions

The Corporation 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 Corporation. Such changes are reflected in the assumptions when they occur.

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 Corporation
- 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
- Changes in the market in relation to the asset

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in the notes.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

Provision for Staff Leave Pay: Employees' entitlements to annual leave are recognised as they accrue to the employees.

Provision for Bad & Doubtful Debts. The estimated provision for doubtful debts is based on the period for which the debt was outstanding.

Provision for stocks obsolescence. The provision for stocks obsolescence is based on the condition of the stock item and whether the corporation stands to recover its investment from the stock item.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 SALES	<u>2020/2021</u>	<u>2019/2020</u>
Product Category		
Fertilizer	290,958,757	241,119,079
Rice	490,961,390	145,004,920
Magadi Salts	71,749,910	88,353,594
Cement	31,018,798	33,550,796
Hardware & Special Orders	37,662,917	23,465,793
Farm Inputs & Implements	75,508,619	4,128,679
Plastic Wares	<u>1,282,663</u>	<u>1,771,879</u>
TOTAL	<u>999,143,054</u>	<u>537,394,740</u>
7 COST OF SALES		
Product Category	<u>2020/2021</u>	<u>2019/2020</u>
Fertilizer	264,815,567	222,457,948
Rice	432,416,164	126,147,138
Magadi Salts	64,234,105	77,904,516
Hardware & Special Orders	30,427,563	19,056,719
Cement	28,476,179	31,204,958
Farm Inputs & Implements	61,165,887	3,498,332
Plastic Wares	<u>1,126,368</u>	<u>1,514,659</u>
TOTAL	<u>882,661,833</u>	<u>481,784,270</u>
8.COMMISSION INCOME	<u>2020/2021</u>	<u>2019/2020</u>
Commission Income	54,000	12,254,715
Less Handling Costs	-	(955,166)
	54,000	11,299,549
9. OTHER INCOME	<u>2020/2021</u>	<u>2019/2020</u>
Rent Income	71,062,558	71,119,454
Warehousing Income		3,211,088
Interest Income	2,942,466	7,030,137
Transport Income	2,820,548	3,892,850
Parking Income	<u>248,276</u>	<u>22,455</u>
	<u>77,073,847</u>	<u>85,275,984</u>

10 ADMINISTRATION COSTS

	<u>2020/2021</u>	<u>2019/2020</u>
Staff Travel & Subsistence Costs	6,743,048	6,435,803
Training Expenses	1,402,054	2,524,360
Staff Welfare Costs	12,748,367	9,031,883
Communication Services	2,649,656	2,571,241
Printing, Advertising & Information Supplies	593,089	1,004,585
Rent, Security & Parking Fees	14,209,695	13,803,787
Legal & Professional Services	6,802,539	1,013,166
Office & General Supplies	3,037,568	1,716,701
Motor Vehicle Expenses	2,210,447	2,301,994
Repairs & Maintenance of Assets	2,008,950	1,146,634
Bank Charges & Interest	973,393	
	<u>53,378,805</u>	<u>41,550,154</u>

11 PERSONNEL EMOLUMENTS

	<u>2020/2021</u>	<u>2019/2020</u>
Salaries & Wages	61,179,049	46,092,934
Pension & Gratuity	3,438,949 -	- 2,562,563
Provision for Leave Pay	<u>181,387</u>	<u>193,080</u>
	<u>64,799,385</u>	<u>48,848,577</u>

The number of Employees at the end of the year was:

	<u>2020/2021</u>	<u>2019/2020</u>
Permanent Employees - Management	55	55
Permanent Employees - Unionisable	-	-
Temporary & Contract Employees	2	-
Total	57	55

12 DIRECTORS' EMOLUMENTS

	<u>2020/2021</u>	<u>2019/2020</u>
Board Travel & Subsistence Costs	5,232,631	3,693,029
Board Sitting Allowance	5,140,000	3,613,332
Chairman's Honoraria & Mobile	1,044,000	1,044,000
Board Medical Cover	621,022	769,363
Board General Expenses	<u>342,520</u>	<u>98,536</u>
	<u>12,380,173</u>	<u>9,218,260</u>

13	SELLING & DISTRIBUTION COSTS	<u>2020/2021</u>	<u>2019/2020</u>
	Marketing & Promotional expenses	409,322	77,536
	Repairs & Maintenance of trucks	4,652,296	3,458,953
	Telephone for Sales Staff	526,692	331,885
	Travelling & Subsistence for Sales	6,038,655	136,550
	Fuel for Trucks	2,594,205	1,870,425
	Provision for Bad Debts	5,180,631	6,492,784
	Provision for Stock Obsolescence	47,027	167,057
	Tendering Costs	36,263	3,000
	Fumigation costs	<u>489,798</u>	
	Total Selling & Distribution Expenses	<u>19,974,890</u>	<u>12,538,191</u>
14	DEPRECIATION	<u>2020/2021</u>	<u>2019/2020</u>
	Depreciation of Property plant & Equipment	22,712,203	28,688,868
	Amortization of Intangible Assets	120,000	60,000
	Depreciation of Right-of-Use Assets	642,500	<u>2,866,160</u>
	Total Depreciation	<u>23,474,703</u>	<u>31,615,028</u>
15	OTHER EXPENSES	<u>2020/2021</u>	<u>2019/2020</u>
	Corporate Social Responsibility	200,000	100,000
	Interest & Penalties	13,114	2,226,620
		213,114	2,326,620
16	FINANCE COSTS	<u>2020/2021</u>	<u>2019/2020</u>
	Interest on Loans & Finance leases	1,269,207	2,161,543
	Interest on Lease Liabilities	6,534	349,735
	Bank Charges & Interest	-	640,082
	Total Finance Costs	<u>1,275,741</u>	<u>3,151,360</u>
17	TAXATION		
17(a)	INCOME TAX EXPENSE/(CREDIT)	<u>2020/2021</u>	<u>2019/2020</u>
	Income tax on profits calculated at domestic rate - 30%	12,969,983	10,143,697
	Current year deferred tax charge (note 32)	(8,546,400)	(12,955,083)
	Under/(over) provision of deferred tax in prior years		<u>3,840,978</u>
	Income Tax Charge	<u>4,423,582</u>	<u>1,029,592</u>

17(b) Reconciliation of Tax Expense /(credit) to the expected tax based on Accounting Profit

Profit before tax	18,112,256	2,937,813
Tax at applicable tax rate 30% (Previous 25%)	5,433,677	734,453.25
Current tax: 2019/2020 under provision		(9,028,690)
Tax effects on expenses not deductible for tax purposes	(8,671,019)	10,416,986
Tax effects on income not taxable		
Tax effects of excess capital allowances over depreciation	7,660,925	(1,093,157)
Deferred tax prior year over-provision		
	4,423,582	1,029,592

18. GRANTS FROM NATIONAL GOVERNMENT

Recurrent grant received from the National Government for the purpose of remilling rice, valuation of properties and review of strategic plan.

Name of the Entity sending the grant	Amount recognized in the Statement of Comprehensive Income KShs	Amount deferred under deferred income KShs	Amount recognized in capital fund. KShs	2020 - 2021 KShs	2019- 2020 KShs
State Department of Co-operatives	120,000,000			120,000,000	680,000,000
Total	120,000,000			120,000,000	680,000,000

19 EARNINGS PER SHARE

The earnings per share is calculated by dividing the profit after tax by the average number of Ordinary shares in issue during the year of 32,000,000. There were no dilutive or potentially dilutive ordinary shares as at the reporting date. The corporation reported a profit of Ksh. 13,688,674 during the financial year.

**Reports and Financial Statements
For the year ended June 30, 2021**
20. SCHEDULE OF PROPERTY, PLANT AND EQUIPMENT

DESCRIPTION	LAND	BUILDINGS	WORK IN PROGRESS	MACHINERY AND OFFICE EQUIPMENT	COMPUTERS & ICT EQUIPMENT	FURNITURE & FITTINGS	MOTOR VEHICLES	TOTAL
COST OR VALUATION								
As at 1st July 2019	1,699,210,000	1,000,612,200		3,704,343	3,291,101	3,542,510	34,400,000	2,744,760,154
Additions			6,793,013	505,042	2,547,414	359,400		10,204,868
Loita Street & Nakuru Plots)	63,390,540	-		-	-	-	-	63,390,540
Disposals								
Development Grant			(20,000,000)					(20,000,000)
Less Provision for Loss on Loita Street & Nakuru Plots	(63,390,540)							
As at 30th June 2020	1,699,210,000	1,000,612,200	(13,206,987)	4,209,385	5,838,515	3,901,910	34,400,000	2,734,965,022
DEPRECIATION								
As at 1st July 2019	-	80,048,976		1,759,680	2,936,094	1,886,341	27,520,000	114,151,090
Charge for the year		20,012,244		507,301	705,492	583,831	6,880,000	28,688,868
Disposal								
As at 30th June 2020	-	100,061,220		2,266,981	3,641,586	2,470,172	34,400,000	142,839,958
NET BOOK VALUE								
As at 30th June 2020	1,699,210,000	900,550,980	(13,206,987)	1,942,404	2,196,929	1,431,738	-	2,592,125,064
FY 2020/2021								
COST OR VALUATION								
As at 1st July 2020	1,699,210,000	1,000,612,200	(13,206,987)	4,209,385	5,838,515	3,901,910	34,400,000	2,734,965,022
Additions			8,562,539	2,154,635	5,098,013	150,100		15,965,286
Loita Street & Nakuru Plots)	63,390,540	-		-	-	-	-	63,390,540
Development Grant								
Less Provision for Loss (Loita Street & Nakuru Plots)	(63,390,540)							
As at 30th June 2021	1,699,210,000	1,000,612,200	(4,644,448)	6,364,020	10,936,528	4,052,010	34,400,000	2,750,930,309
DEPRECIATION								
As at 1st July 2020	-	100,061,220		2,266,981	3,641,586	2,470,172	34,400,000	142,839,958
Charge for the year		20,012,244		623,972	1,488,824	587,163		22,712,203
As at 30th June 2021	-	120,073,464		2,890,953	5,130,410	3,057,334	34,400,000	165,552,161
NET BOOK VALUE								
As at 30th June 2021	1,699,210,000	880,538,736	(4,644,448)	3,473,067	5,806,118	994,676	-	2,585,378,148

a) Provision for Loss includes Loita Street plot LR.209/103430 valued at ksh 30,462,543.5 in the accounts which was irregularly transferred to commissioner of lands and Part of Nakuru plot LR.6/158 was irregularly acquired by a private developer and a godown constructed on it.

b) Nairobi plot LR.209/8607 is charged against the loan and trade guarantees with ICDC Ltd.

c) The Corporation received a grant of Ksh 20 million for the refurbishment of the Kisumu Warehouse. The same has been disclosed under work in progress.

21 RIGHT-OF-USE ASSETS

	<u>2020/2021</u>	<u>2019/2020</u>
Buildings		
Cost	10,630,800	19,390,800
Additions	13,198,943	
Written off	(10,630,800)	(8,760,000)
Total	<u>13,198,943</u>	<u>10,630,800</u>
Accumulated Depreciation		
Balance b/f	6,378,480	3,878,160
Additions	642,500	2,866,160
Written Off	(6,378,480)	(2,492,000)
Balance	<u>642,500</u>	<u>4,252,320</u>
Carrying Amount	<u>12,556,443</u>	<u>6,378,480</u>

22 INTANGIBLE ASSETS

Intangible assets represent computer software that is not fully implemented. Therefore it is yet to be amortized.

	<u>2020/2021</u>	<u>2019/2020</u>
Opening Balance	16,906,172	16,606,172
Addition		360,000
Accumulated Amortization	(180,000)	(60,000)
Written down Value	<u>16,726,172</u>	<u>16,906,172</u>

23 INVENTORIES

	<u>2020/2021</u>	<u>2019/2020</u>
Rice Inventories	363,899,748	462,225,067.86
Fertilizer Inventories	21,049,205	15,787,810.70
Cement Inventories	1,197,372	1,425,473.14
Magadi Salts Inventories	3,885,109	1,049,087.81
Hardware & Special Order Inventories	2,201,363	2,952,354.88
Farm Inputs & Implements Inventories	6,243,787	669,165.00
Provision for stocks Obsolescence	(549,708)	(502,680.24)
Total Inventories	<u>397,926,876</u>	<u>483,606,279</u>

24 TRADE & OTHER RECEIVABLES

	<u>2020/2021</u>	<u>2019/2020</u>
(a) TRADE RECEIVABLES		
Government Debtors	124,146,553	26,452,972
Rice Debtors	155,700,476	78,797,209
Private Debtors	25,340,973	25,008,426
Total Trade Receivables	<u>305,188,002</u>	<u>130,258,607</u>

(b) OTHER RECEIVABLES

Rent Receivable	100,888,173	87,219,024
Staff Purchase Scheme	157,610	559,028
Receivable bank Guarantees	1,000,000	1,000,000
A/c Receivable D.I.T.	603,182	603,182
Salary advance	201,667	56,583
Staff Imprests	689,729	496,700
Claims Receivable	9,334,871	9,334,871
Bounced Cheques receivable	1,672,192	1,672,192
Prepaid Expenses	32,781,000	217,138
Prepaid Insurance	-	1,851,023
Deposits	661,442	661,442
VAT Recoverable	203,416	206,341
Total Other Receivables	148,193,281	103,877,524
Total Trade & Other Receivables	453,381,283	234,136,131
Less Provision for Doubtful debts (Note38)	(42,131,735)	(36,951,104)
Net Trade & Other Receivables	411,249,548	197,185,027

At June 30 2021, the ageing analysis of the receivables was as follows:

Less than 30 days	181,724,392	8,749,331
Between 30 and 60 days	27,931,698	6,246,945
Between 61 and 90 days	67,829,075	1,519,206
Between 91 and 120 days	27,669,040	7,518,934
Over 120 days	148,103,598	90,726,015

25 TAX RECOVERABLE

	<u>2020/2021</u>	<u>2019/2020</u>
At the beginning of the year	(8,291,694)	(7,941,557)
Income tax Charge/(Credit) for the year-note 17(a)	4,423,582	1,029,592
Under/(over) provision in prior years		401,259
Tax Paid during the year	(820,609)	(1,780,988)
At the end of the year	(4,688,721)	(8,291,694)

26 BANK AND CASH BALANCES

	<u>2020/2021</u>	<u>2019/2020</u>
Cash at Bank	209,018,717	58,885,058
Cash in Hand	195,324	231,339
On-Call Deposits	-	100,000,000
	209,214,041	159,116,397

All of the cash at bank was held at Barclays Bank of Kenya, National Bank and Co-operative Bank, the Corporation's main bankers..

The make – up of bank balances and short-term deposits is as follows:

Financial institution	Account number	2020/2021	2019/2021
		KShs	KShs
a) Current account			
Barclays Bank	0701788990	12,226,906	(429,410)
National Bank	01003002924900	559,598	486,724
Co-operative Bank	01136028861700	9,230,482	2,964,612
Co-operative Bank	01136028861701	187,001,732	55,863,132
Sub- total		209,018,717	58,885,058
b) On-Call Deposits			
Co-operative Bank			100,000,000
Sub- total			100,000,000
c) Others			
Petty Cash Balances		195,324	230,719
Undeposited Funds			620
M-Pesa Till Balances			-
Sub- total			231,339
Grand total		209,214,041	159,116,397

27 SHARE CAPITAL	2020/2021	2019/2020
Ordinary shares Issued and fully paid		
1.6million shares of ksh.20 each	32,000,000	32,000,000

28 REVALUATIONS RESERVE

The revaluation reserve relates to the revaluation of certain items of property, plant and equipment. As indicated in the Statement of Changes in Equity, this is stated after transfer of excess depreciation net of related deferred tax to retained earnings. Revaluation surpluses are not distributable.

	2020/2021	2019/2020
Balance as at 1st July 2020	2,810,642,777	2,810,642,777
Balance as at 30th June 2021	2,810,642,777	2,810,642,777

29 RETAINED EARNINGS

The retained earnings are as per the statement of changes in Equity.

30 RENT LEASE DEPOSITS	2020-2021	2019-2020
Rent lease deposits b/f	(8,061,644)	(9,890,201)
Deposits by tenants	(6,085,511)	(1,005,373)
Refunds paid to Tenants	524,000	2,833,931
Rent lease deposits c/f	(13,623,155)	(8,061,644)

31 LEASE LIABILITY

	<u>2020-2021</u>	<u>2019-2020</u>
	Kshs	Kshs
Maturity analysis		
2021/22	-	8,301,559
2025/26	12,556,443	
	<u>12,556,443</u>	<u>8,301,559</u>
Less: unearned interest	(127,692)	(427,381)
	<u>12,428,750</u>	<u>7,874,178</u>
Analysed as:		
Non-Current	10,134,694	5,961,709
Current	2,294,056	1,912,469

32 DEFERRED TAX LIABILITY

Deferred tax is calculated on all temporary differences under the liability method using the enacted tax rate, currently 30%. The net deferred tax liability at year end is attributable to the following items:

	<u>2020/2021</u>	<u>2019/2020</u>
	Kshs	Kshs
Accelerated Capital Allowance	3,782,377	1,093,157
Tax losses carried forward	10,434,133	23,612,800
Provisions	33,680,854	39,816,918
Net deferred tax liability	<u>47,897,364</u>	<u>64,522,875</u>

The movement on the deferred tax account is as follows:

Balance at beginning of the year	64,522,876	69,067,281
Credit to revaluation reserve		
Under provision in prior years	(8,079,112)	8,410,678
Income statement charge/(credit)	(8,546,400)	(12,955,083)
Balance at end of the year	<u>47,897,364</u>	<u>64,522,876</u>

33 RICE FUND

This Represents grants received to purchase rice from farmers for onward selling

	<u>2020/2021</u>	<u>2019/2020</u>
Balance b/f	660,000,000	-
Grants Received	-	660,000,000
Drawings from the fund	-	-
Balance c/f	<u>660,000,000</u>	<u>660,000,000</u>

34 DEFERRED GRANT INCOME

Deferred grant income relates to capital contributions received from the National Treasury for rice remilling and assets valuation.

	<u>2020/2021</u>	<u>2019/2020</u>
Recurrent grant received (Note 19)	120,000,000	-
Payments	(5,592,000)	-
Prepayment	(32,781,000)	-
Balance as at 30th June 2021	<u>81,627,000</u>	-

35 BORROWINGS

Finance Leases	<u>2020/2021</u>	<u>2019/2020</u>
Balance at the beginning of the year	10,505,046	17,414,241
Interest Accrued during the year	1,269,207	1,381,543
Additional Borrowing during the year	6,054,922	2,019,298
Repayments during the year	<u>(16,142,453)</u>	<u>(10,310,036)</u>
Finance Lease balance at end of the year	<u>1,686,722</u>	<u>10,505,046</u>
Less Amounts Due within 1 Year (Current)	1,686,722	10,505,046
Amounts Due after 1 Year (Non-Current)	-	

The analysis of the Finance leases is as follows:

Kshs 24.18 million Finance Lease from ICDC	1,686,722	8,898,894
Insurance Premium financing	-	1,606,152
Total	<u>1,686,722</u>	<u>10,505,046</u>

36 TRADE & OTHER PAYABLES

	<u>2020/2021</u>	<u>2019/2020</u>
Trade Payables	153,558,230	54,984,685
Accrued Charges	54,236,765	53,564,136
Accrued Audit Fees	2,300,000	2,100,000
Claims Payable	129,288	129,288
Accrued Leave Days	5,497,230	5,315,843
Salary Withholdings	1,111,700	4,004,329
Accrued Directors Fees	274,000	345,744
Accrued Gratuity/Pension	490,639	453,612
Statutory Creditors	1,495,963	1,404,738
VAT Payable	437,937	3,086,462
	<u>219,531,751</u>	<u>125,388,837</u>

37 PROVISION FOR STAFF LEAVE PAY

	<u>2020/2021</u>	<u>2019/2020</u>
Provision for leave pay b/f	5,315,843	5,122,763
Additional provision for the year	4,599,108	3,154,555
Leave paid out or utilised during the year	<u>(4,417,721)</u>	<u>(2,961,475)</u>
Provision for leave pay c/f	<u>5,497,230</u>	<u>5,315,843</u>

Provision for annual leave pay is based on services rendered by full-time employees up to the end of the year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

38 PROVISION FOR BAD DEBTS	<u>2020/2021</u>	<u>2019/2020</u>
Provision for bad debts b/f	36,951,104	30,458,320
Additional provision at end of year	<u>5,180,631</u>	<u>6,492,784</u>
Provision for bad debts c/f	<u>42,131,735</u>	<u>36,951,104</u>
39 PROVISION FOR INVENTORIES	<u>2020/2021</u>	<u>2019/2020</u>
Provision for Inventories b/f	502,680	335,623
Additional provision at end of year	<u>47,027</u>	<u>167,057</u>
Provision for inventories c/f	<u>549,707</u>	<u>502,680</u>

40 NOTES TO THE STATEMENT OF CASHFLOWS

40(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations

	<u>2020/2021</u>	<u>2019/2020</u>
Net Profit/(Loss) for the year	13,688,674	1,908,221
Adjustment for;		
Depreciation of Property Plant & Equipment	20 22,712,203	28,688,868
Amortization of ROU (Right of Use) Assets	21 642,500	2,866,160
Amortization of Intangible Assets	22 120,000	60,000
Provision for Staff Leave pay	37 181,387	193,080
Provision for Stock Obsolescence	39 47,027	167,057
Provision for bad & Doubtful debts	38 5,180,631	6,492,784
Interest & Penalties	15 13,114	2,226,620
Interest Expense	16 1,269,207	2,161,541
Interest on Lease Liabilities	16 6,534	349,735
Income Tax Expense /(Credit)	17(a) 4,423,582	1,029,592
Deficit/Surplus before working capital changes	48,284,860	46,143,658
Decrease/(Increase) in Trade & Other Receivables	(210,461,548)	(90,115,190)
Decrease/(Increase) in Inventories	85,679,403	(466,865,645)
Increase/(Decrease) in Trade & Other Payables	94,142,915	29,573,667
Increase/(Decrease) in Current Lease Liabilities	<u>381,587</u>	<u>(1,965,691)</u>
Cash Generated from Operations	18,027,216	(483,229,201)
Income Tax Paid	25 (820,609)	(1,780,988)
Provision for Leave Paid/Utilized	37 (4,417,721)	(2,961,475)
Interest Paid	40(b) (6,320,560)	(4,772,810)
Inventory Adjustment	40(c) (21,679,360)	-
Net cash generated from/(used in) operating activities	<u>(15,211,034)</u>	<u>(492,744,474)</u>

40(b) Analysis of Interest Paid

	<u>2020/2021</u>	<u>2019/2020</u>
Arrears of interest b/f	6,640,557	6,640,557
Arrears written off		(2,825,939)
Interest charge for the year	1,269,207	3,676,887
Interest Paid for the Year	<u>(6,320,560)</u>	<u>(4,772,810)</u>
Arrears of interest c/f	<u>1,589,205</u>	<u>2,718,695</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)**40(c) Inventory Value Adjustment**

Inventory Value before adjustment	419,606,237
Inventory Value c/f	397,926,876
Adjustment	<u>(21,679,360)</u>

41 TRANSACTIONS WITH RELATED PARTIES	<u>2020/2021</u>	<u>2019/2020</u>
Sales to Related Parties		
Sales of goods to Employees	345,148	46,035
Sales of goods to Government MDAs	797,690,131	526,434,213
Lease of Buildings to Government MDAs		11,232,688
Total	798,035,279	537,712,936
Grants from the Government		
Grants from the National Government	120,000,000	680,000,000
Borrowings from Govt Institutions		
ICDC Finance Lease	1,686,722	1,686,722
Expenses incurred on behalf of Related Parties		
Payments to Defined contribution pension scheme	3,137,949	2,562,563
Payments for staff welfare	12,725,967	9,031,883
Total	15,863,916	11,594,446
Key management compensation		
Directors' Remuneration	12,380,173	8,952,897
Compensation to Key Management	15,026,908	14,816,652
Total	27,407,081	23,769,550

42. 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 corporation'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. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

	Total amount	Fully Performing	Past due	Impaired
	Kshs	Kshs	Kshs	Kshs
At 30 June 2020				
Receivables from non- exchange transactions	234,136,130	103,079,267	94,105,759	36,951,104
Cash & Cash Equivalents	159,116,397	159,116,397		
Total	393,252,527	262,195,664	94,105,759	36,951,104
At 30 June 2021				
Receivables from non- exchange transactions	217,564,596	161,940,185	54,300,169	1,324,242
Cash & Cash Equivalents	209,214,041	209,214,041		
Total	426,778,637	371,154,226	54,300,169	1,324,242

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The Corporation has significant concentration of credit risk on amounts due from government institutions. The board of directors sets the corporation'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 Corporation's directors, who have 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 through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the Corporation 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.

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
At 30 June 2020				
Trade payables	49,054,656	5,498,468	-	54,553,125
Other Payables	48,195,577	8,029,407	-	56,224,984
Current portion of borrowings	1,111,217.60	3,333,653	6,060,175	10,505,046
Employee benefit obligation	4,004,329	-	-	4,004,329
Total	102,365,779	16,861,529	6,060,175	125,287,483
At 30 June 2021				
Trade payables	153,558,230	-	-	153,558,230
Other Payables	4,669,509	5,065,317	51,086,154	57,782,641
Current portion of borrowings	1,686,722	-	-	1,686,722
Employee benefit obligation	3,465,819	-	-	3,465,819
Total	163,380,280	5,065,317	48,047,815	219,531,751

(iii) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the Corporation 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 Corporation'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

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

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

iv). Capital Risk Management

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

	2020/2021	2019/2020
	Kshs	Kshs
Revaluation reserve	2,810,642,777	2,810,642,777
Retained earnings	(241,697,571)	(254,815,444)
Share Capital	32,000,000	32,000,000
Total funds	2,600,945,206	2,587,827,333
Total borrowings	1,686,722	10,505,046
Less: cash and bank balances	209,214,041	159,116,397
Net debt/(excess cash and cash equivalents)	(207,527,319)	(148,611,351)
Gearing	8%	5%

43 INCORPORATION

The Corporation is incorporated in Kenya under the Kenyan Companies Act and is domiciled in Kenya.

44 CONTINGENT LIABILITIES

The Corporation also discloses the following: -

Tax assessments by KRA of Kshs. 108 million have been disputed by the Corporation. The same has been disclosed as a contingent liability

45 EVENTS AFTER THE REPORTING PERIOD

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

46 CURRENCY

The financial statements are presented in Kenya Shillings (Kshs).

XIX. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the Auditor General and management comments that were provided to the auditor. The Corporation nominated focal persons as shown below with the associated timelines within which the issues are expected to be resolved.

Audit Query Ref No.	Issue/Observation from the Auditor General	Management Comments	Focal Point person to resolve the issue	Status	Timelines
1	Share Capital Management did not provide share certificates for audit verification necessary to validate whether the reported share capital was fairly stated.	The share certificates are held by ICDC. The shareholding has been disclosed in the Kenya gazette supplement No 138. Legal Notice No 113 of 2 nd July 2021	Company Secretary/Legal Services Manager	Resolved	30 th June 2022
2	Unsupported Leases Management has not provided for audit verification, lease agreements, contracts and other documents relating to lease assets and liabilities. Hence, the validity of the lease balances reported could not be confirmed.	Although the duty of registering leases lies with the lessor, the Corporation has put in place measures to ensure that all leases are registered by 30 th June 2022.	Company Secretary/Legal Services Manager	Unresolved	30 th June 2022
3.1	Untitled Land a.) Three parcels of land situated in Nairobi, Nyahururu and Kapsabet valued at Kshs. 55,204,540 do not have ownership documents. b.) There are unresolved disputes between the Corporation & other parties in regard to ownership of a plot of land in Bungoma County c.) The plots in Nanyuki & Naivasha are not fenced.	a.) The management has sought the help of our lawyers, the Kenya Railways Corporation, National Lands Commission and the EACC to ensure the ownership documents are obtained b.) The matter is awaiting determination at the Bungoma Law courts.	Company Secretary/Legal Services Manager	Unresolved	30 th June 2022
3.2	Unsupported Diminution of Land Value Management made a provision for loss of land in respect to Loita Street and Nakuru of Kshs. 63,390,540. There was no documentary evidence to support the surrender of the Loita Street plot to the commissioner of lands. Hence it was not possible to confirm the ownership, valuation and completeness of the property, Plant & Equipment.	The Corporation continues to engage the EACC, DCI & NC; through regular correspondences	Company Secretary/Legal Services Manager	Unresolved	30 th June 2022
4.1	Long Outstanding Debts The continued accumulation of outstanding receivables, currently valued at Kshs. 197,185,026 is an indication of weakness in debt collection mechanisms in the recovery of outstanding amounts due to the Corporation.	Except for those debts specifically provided for under provision for doubtful debts. The Corporation is in touch with all the debtors and it is expected that the accounts will be settled by 31 st December 2021	Finance & Accounts Manager	Unresolved	31 st December 2021
4.2	Unconfirmed Provision for Bad and Doubtful Debts. The provision for doubtful debts valued at Kshs. 36,951,104 has not been supported by any documentary evidence. Therefore, the accuracy and completeness of the corporation's receivables and provision for doubtful debts amount could not be confirmed.	The Corporation has developed and is currently implementing a bad debts policy	Finance & Accounts Manager	Unresolved	31 st December 2021

XX. Appendix 1: PROJECTS IMPLEMENTED BY THE CORPORATION**Projects**

Projects implemented by the State Corporation/ SAGA Funded by development partners

Project title	Project Number	Donor	Period/duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)

Status of Projects completion

	Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Sources of funds
	N/A						

Appendix 2: INTER-ENTITY TRANSFERS

Break down of Transfers from the State Department of Trade FY 2020/2021

Recurrent Grants

	Bank Statement Date	Amount (KShs)	FY to which the amounts relate
Rice Distribution	29.06.2021	120,000,000	2020/2021
Total			

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

Finance & Accounts Manager
Kenya National Trading Corporation Ltd

Head of Accounting Unit
State Department of Co-operatives

Sign: 

Sign:

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

XXI. Appendix 3: TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Name of the MDA/Donor Transferring the funds	Date received as per bank statement	Nature: Recurrent/ Development/ Others	Total Amount - KES	Where Recorded/Recognized					Total Transfers during the Year
				Statement of Financial Performance	Capital Fund	Deferred Income	Receivables	Assets	
State Department of Cooperatives	29.06.2021	Recurrent	120,000,000			√			120,000,000
Total				-			-		120,000,000

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