

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

*Paper laid on the  
Table of the House  
by the Majority  
Whip [Hon. Benjamin*

**REPORT** *Washiali]* on  
*Thursday*  
*21<sup>st</sup> June 2018*

PARLIAMENT  
OF KENYA  
LIBRARY

OF

**THE AUDITOR-GENERAL** *(Afternoon)*

ON

**THE FINANCIAL STATEMENTS OF  
STORES AND SERVICE FUND**

**FOR THE YEAR ENDED  
30 JUNE 2017**

**STATE DEPARTMENT OF PUBLIC WORKS**

Revised Template 30 June 2017



**MINISTRY OF TRANSPORT, INFRASTRUCTURE, HOUSING AND  
URBAN  
DEVELOPMENT  
STATE DEPARTMENT OF PUBLIC WORKS**

---

**STORES AND SERVICES FUND**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED**

**JUNE 30, 2017**

---

**Prepared in accordance with the Accrual Basis of Accounting Method under the International Public  
Sector Accounting Standards (IPSAS)**

TABLE OF CONTENTS

TABLE OF CONTENTS ..... i

I. KEY STORES AND SERVICES FUND INFORMATION AND MANAGEMENT ..... 2

II. MANAGEMENT DISCUSSION AND ANALYSIS ..... 5

III. REPORT OF ACCOUNTING OFFICER ..... 8

IV. STATEMENT OF ACCOUNTING OFFICER RESPONSIBILITIES ..... 9

V. REPORT OF THE INDEPENDENT AUDITORS ON THE STORES AND SERVICES FUND ..... 10

VI. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2017 ..... 12

VII. STATEMENT OF FINANCIAL POSITION AS AT 30<sup>TH</sup> JUNE 2017..... 13

STATEMENT OF FINANCIAL POSITION ..... 13

VIII. STATEMENT OF CHANGES IN NET ASSETS ..... 14

FOR THE YEAR ENDED 30 JUNE 2017..... 14

IX. STATEMENT OF CASH FLOWS AS AT 30 JUNE 2017 ..... 15

NOTES TO THE FINANCIAL STATEMENTS ..... 16

X. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS ..... 26

## **I. KEY STORES AND SERVICES FUND INFORMATION AND MANAGEMENT**

### **Background information**

Supplies branch was established by the colonial government vide Treasury circular Ref.No.12/57/02 of 19th January,1960 with capital fund of k £750,000[Ksh.15million] .The main objective was to procure common-user items(for the government )in bulk to realize the benefits of economies of scale, which is true as of today. Treasury Circular Ref. No. CFN .12/18/01 of 9th may 1961 accorded supplies branch the role of investigation of prices, the quality and source of items. Treasury circular No. BFN.12/18/01 OF 19th January, 1971 and Ref.AFN 226/02/075 of 30th may 1974 highlighted the problem of splitting of orders to avoid approvals by the Tender committees.

Supplies Branch is one of the departments under the state department of public works and it is located in the industrial area along Likoni Road occupying an area of approximately 20 acres owned by the ministry of Transport, Infrastructure, Housing and Urban Development. Within its compound, the following government agencies are accommodated: - the Kenya National Examination Council (KNEC), The Independent Electoral and Boundaries Commission (IEBC) ,the Kenya police central engineering workshop ,the central Kenya Police Service Armoury ,the Kenya Police Armourers school , the Ministry of Foreign Affairs Warehouse, the Ministry of Education Warehouse, the Ministry of Finance – Pensions Departments, Ministry of Interior and Co-ordination –Immigration Department and some staff accommodation.

The department also runs the governments petrol station situated along Machakos road, industrial area. The Supplies Branch has 7 regional depots namely Mombasa, Kisumu, Nakuru, Nyeri, Kakamega, Embu and Garrisa and four sub-depots in Kisii, Bungoma, Voi, and Muranga.

The stores and services fund consists of the fund that operates the supply branch business which as stated is a revolving fund. The administrative functioning of the branch is undertaken through normal funds administered by the state department and reported under the state department's financial statement.

The fund has faced numerous challenges since the inception of District Focus for Rural Development (1984) and the introduction of economic liberalism since 1991 both of which snatched its market share and dominance of government business in common user items.

The subsequent down turn led to huge dead stock, stock out and numerous challenges of literal meltdown, understaffing and virtual cessation of major operations.

Records over time have been scant as the organization has been shunted between three ministries between mid-eighties and early nineties.

The enactment of PPADA 2005 overrode the treasury circulars that ran the supplies branch and left a lacuna in law as to its operations, however it continued to advertise annual tenders and buying on agency for GOK entities.

The need for the continuation of the branch has been reflected in business requests it obtains from MDA's and the use of its tenders by MDA's, however the business model is in the process of serious review as stated under management discussion and analysis.

#### **VISION**

To procure best quality common user items/services at competitive market prices within the country

#### **MISSION**

To ensure that the government realizes saving in the procurement of common-user items/services both effectively and efficiency through bulk purchasing, hence realizing the economies of scale

#### **THE MANDATE**

- 1) To ensure that the government realizes savings in the procurement of common –user items which are needed by ministries/departments, government institutions/parastatals MDA's through bulk purchasing.
- 2) Sourcing and administering framework agreements and contracts on Common user Items
- 3) Storage of vital stores for government entities.
- 4) Bulk sourcing and issuance of fuel products

Supplies branch is headed by the officer –in-charge at the level of the senior Deputy Secretary. The department has three divisions, Procurement which is headed by principal supply chain management Officer and Accounts section which is headed by the chief accountant and administration headed by a Senior Assistant Secretary.

#### **a) Key Management**

The *supplies branch* day-to-day management is under the following key organs:

- Cabinet secretary
- Accounting officer
- Director of Administration
- Deputy Accountant general

- Head supply chain
- Officer in- charge supplies branch

**b) Fiduciary Management**

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2017 and who had direct fiduciary responsibility were:

No	Designation	Name
1.	Cabinet secretary	Mr James W Macharia, EGH
2.	Principal secretary	Prof. Arch. Paul M Maringa, (PHD),CBS, Corp. Arch, MAAK MKIP
3.	Director of administration	George N Macgoye, EBS,OGW
4.	Head of Supply chain	Joyce Ala
5.	Officer in-charge supplies Branch	Evan K. Keronche

**c) Headquarters**

P.O. Box 30071-00100,  
Supplies branch /likoni road.  
Industrial Area.  
Nairobi, KENYA.

**d) Supplies branch**

Telephone :( 254(0)206533961.  
E-mail: info@publicworks.go.ke

**e) Entity Bankers**

Central Bank of Kenya,  
Haile Selassie Avenue.  
P.O. Box 60000,  
City Square 00200.  
Nairobi, Kenya.

## Senior Management – State Department For Public Works



Mr. James W. Macharia, EGH,  
Cabinet Secretary,  
Ministry Transport Infrastructure,  
Housing & Urban Development

Mr. James W. Macharia assumed the position of Cabinet Secretary, Ministry Transport, Infrastructure, Housing and Urban Development in May 2016 following the reorganization of the Government of the Republic of Kenya. Prior to his appointment Mr. James Macharia had worked as the Financial Controller of the Standard Chartered Bank, Managing Director of African Banking Corporation in Zambia and Tanzania, Group Managing Director with NIC Bank from 2005 to 2015 when the bank grew more than ten-fold and with five subsidiary companies including Tanzania and Uganda. Mr. James W. Macharia is charged with formulation and implementation of policies geared towards world class Transport Infrastructure, Maritime Economy, Public Works and Housing for sustainable socio-economic development. He holds a Bachelor of Commerce Degree from the University and a Master of Business Administration Degree from Henley Management College, UK.



Prof. Paul M. Maringa, CBS,  
Principal Secretary,  
State Department for Public  
Works

Prof. Paul Mwangi Maringa assumed the position of Principal Secretary, State Department for Public Works in December, 2015 following the reorganization of the Government of the Republic of Kenya by His Excellency President Uhuru Kenyatta. Prior to this, he was a TVET Senior Expert for Planning and Project Management – Workforce Development Authority (WDA), Kigali, Rwanda. Prof. Paul Mwangi Maringa is the accounting officer for the State Department and is instrumental in coordination, formulation and implementation of policies related to Construction, Maintenance and Rehabilitation of Buildings and Other Public Works. He holds a PhD in Environmental Planning from Jomo Kenyatta University of Agriculture and Technology, a Master's Degree in Planning – Urban and Regional planning and a Bachelor of Architecture Degree both from the University of Nairobi, Kenya.



George N. Macgoye, EBS  
Director of Administration

Mr. George N. Macgoye assumed the position of Director of Administration, State Department for Public Works in May 2015. He is the Principal Deputy to the Principal Secretary and Head of Administration. Mr. George N. Macgoye is in charge of policy formulation and implementation, planning and implementation of projects and programme and general coordination and management of the State Department's functions. He holds a Masters of Arts Degree in Business Administration and Bachelor's Degree in Arts majoring in Government and Political Science.



Joyce Ala,  
Head. SCMU

Ms Joyce N. Ala assumed the duties as Head Supply Chain Management Unit State Department for Public Works in July 2016. She is responsible for Acquisition of goods, services and asset management. She holds a Master's Degree in Business Administration, Strategic Management from Moi University and a member of Kenya Institute of Supplies Management (KISM)



Evans K Keronche,  
Officer In-Charge -Supplies Branch

Mr. Evans K. Keronche assumed the duties as Officer-In-Charge Supplies Branch in March 2017. He is responsible for all administrative matters of the unit, coordination of procurement for common user items by Government/Departments, Institutions/Parastatals and County Governments. He holds a Master's Degree in Business Administration ( Strategic Management), a Bachelor's Degree in Procurement both from Mt. Kenya University and a Final diploma in Supplies Management from K.S.G Mombasa.

**f) Independent Auditors**

Auditor General,  
Kenya National Audit Office,  
Anniversary Towers, University Way.  
P.O.Box 30084,  
GPO 00100.  
Nairobi, Kenya.

**g) Principal Legal Adviser**

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

**II. MANAGEMENT DISCUSSION AND ANALYSIS**

Supplies Branch was established as a department in the Ministry of Works through Treasury Circular Ref. No. 12/57/02 of 19<sup>th</sup> January 1960. Its main function was to procure common user items for the Colonial Government. It later assumed the same functions for the independent Kenyan Governments(MOPW; PPOA, 2012). The department's domicile has since variously shifted between the Ministry responsible for Works, Office of the President and Ministry of Finance. In accordance with Presidential Executive Order No. 1 of 2016, Supplies Branch is currently domiciled in the Ministry of Transport, Infrastructure, Housing and Urban Development, under the State Department of Public Works.

Initially, Supplies Branch consolidated the procurement of common user items for all MDAs, but the monopoly role subsequently declined in the 1980s with the introduction of District Focus for Rural Development Strategy followed by the economic liberalization of 1990s that liberated the sources of government supplies. The enactment of the PPDA, 2005 created a lacuna, by being silent on the role of Supplies Branch.

This notwithstanding, the department has remained a strategic institution for Government in procurement of common user items, despite the lapse in the legal anchorage requiring or guiding MDAs to utilize its services. Thus it has been preparing Quantity and Framework Term Contracts

with suppliers that are used intermittently by procuring entities, limiting its ability to develop comprehensive procurement plans.

The benefits accruing from a functional and responsive Supplies Branch have remained authentic since its inception; and this acknowledgment has yielded a variety of strategies endeavours towards turning it around. The Restructuring of Supplies Branch is envisaged to seal existing loopholes in procurement of common user items and guarantee public value for money through economies of scale and quantity discounts. Once restructured it is expected to foster a transparent, efficient, accountable, effective and responsive performance of its mandate and functions.

In 2004 and 2012, Taskforces commissioned to improve supplies Branch operations reported fundamental findings with sweeping recommendations, among them a radical transformation of Supplies Branch and procurement of consolidated common user items for MDAs to enjoy economies of scale. Though the reports are yet to be implemented, they have furthered the cause of the on-going national dialogue that culminated in legal anchorage via enactment of the PPDA 2015 on 18<sup>th</sup> December 2015 that came to effect on 7<sup>th</sup> January 2016.

Subsequently, the Ministry of Transport, Infrastructure, Housing and Urban Development in consultation with the National Treasury and other Stakeholders, constituted a multi-disciplinary Taskforce to harmonize findings and recommendations of the previous studies to develop strategies for restructuring the Supplies Branch in compliance with the new legal framework. The team was tasked to prepare a Cabinet Memorandum to guide the transformation, and an action plan for initialization and actualization of a new Supplies Branch.

The Taskforce was set up after consultations between the stakeholders followed by an official request for nominees by Prof. Jacob Kaimenyi the Cabinet Secretary in-charge of the then Ministry of Lands, Housing & Urban Development vide his letter *Ref. No. MLHUD/A/100/133* dated 17<sup>th</sup> April, 2016 to the respective Accounting officers. The nominees were then appointed to the Taskforce on 27<sup>th</sup> June 2016 by the Principal Secretary State Department of Public Works and officially commenced the assignment on 14<sup>th</sup> July 2016.

The Taskforce membership was drawn from the Ministry of Transport, Infrastructure, Housing and Urban Development (State Departments of Public Works), Ministry of Finance & National Treasury, Executive Office of the President (State House), the Attorney General's Chambers, Public Service Commission of Kenya (PSCK), Ministry of Devolution and Planning (State Department of Planning),

Ministry of Public Service, Youth and Gender Affairs (Directorate of Public Service Management), Ministry of Information, Communication and Technology (State Department of ICT & Innovation), Kenya Medical Supplies Authority (KEMSA), Public Procurement Regulatory Authority (PPRA) and the private sector represented by Kenya Institute of Supplies Management (KISM).

Besides review and harmonization of findings and recommendations from previous studies, the Taskforce also conducted its independent desktop studies and benchmarking visits to KEMSA and KPLC. It also evaluated and considered experiences gathered from international benchmarking visits in typical institutions in Chile and Tanzania availed by the precursor Taskforce.

In concurrence with findings of the previous reports, the Taskforce observed that prevailing operation at Supplies Branch had progressively fallen behind the international best practices. It observed, the procurement of common-user-items was not compliant to the requirement of Article 227 in the Constitution, i.e. to be in accordance with a system that is fair, equitable, transparent, competitive and cost-effective. It was noted as international best practice, public entities consolidate common user items to achieve economies of scale within a centralized supply chain management model managed by independent corporate legal entities. Management systems are fully automated, quality assurance is underscored, stockholding and logistical costs are avoided and framework agreements and contracting are prevalently used. These presiding agencies are sustained by service charge/commission for services rendered on behalf of public institutions; hence reducing burden to the Exchequer (MOPW; PPOA, 2012).

The highlight of the harmonized recommendations adopted include: establishment of a state entity named Kenya Procurement and Disposal Agency (KEPDA) to manage procurement of common-user-items; transfer of existing Supplies Branch's assets to the new entity; pursuit and recovery of debts owed; capitalization of the new entity through seed money and its further financing through grants/loans and revenues from service charge or commission for services rendered; PPADA 2015 to require all MDAs to procure common user items through the new entity; a transitional team be set up to operationalize and actualize the new entity etc.

In this regard, the report presents a laid out strategy for restructuring the Supplies Branch in compliance with the new legal framework and a comprehensive action plan to steer its initialization and actualization. The report is accompanied by a Cabinet Memorandum to guide the transformation within confines of the new constitutional dispensation and current realities.

### **III. REPORT OF ACCOUNTING OFFICER**

The Accounting officer herewith submits his report together with the audited financial statements for the year ended June 30, 2017 which show the state of the *Stores and services Fund* affairs.

#### **Principal activities**

The principal activities of the stores and services fund are to ensure that the government realizes Savings in the procurement of common goods, -user items/services both effectively and efficiency through bulk purchasing, hence realizing economies of scale and bulk discounts.

#### **Results**

The results of the stores and service fund for the year ended June 30, 2017 are set out on page 13 to 20

#### **Auditors**

The Auditor General is responsible for the statutory audit of the *stores and services fund* in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015

#### IV. STATEMENT OF ACCOUNTING OFFICER RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and (section 14 of the State Corporations Act, - *Stores and services fund should quote the applicable legislation under which they are regulated*)) require the Accounting Officer to prepare financial statements in respect of that *store and services fund* which give a true and fair view of the state of affairs of the *stores and services fund* at the end of the financial year/period and the operating results of the *entity* for that year/period. The Accounting officer is also required to ensure that the *stores and services fund* keeps proper accounting records which disclose with reasonable accuracy the financial position of the *stores and services fund*. The accounting officer is also responsible for safeguarding the assets of the *stores and services fund*.

The Accounting officer is responsible for the preparation and presentation of the *stores and services fund* financial statements, which give a true and fair view of the state of affairs of the *stores and services fund* for and as at the end of the financial year (period) ended on June 30, 2017. 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 entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the *stores and services fund*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Accounting officer accept responsibility for the *stores and services fund* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and (the State Corporations Act) – *stores and services fund should quote applicable legislation as indicated under*). The Accounting officer is of the opinion that the *stores and services fund* financial statements give a true and fair view of the state of *stores and services fund* transactions during the financial year ended June 30, 2017, and of the *stores and services fund* financial position as at that date. The Accounting officer further confirm the completeness of the accounting records maintained for the *stores and services fund*, which have been relied upon in the preparation of the *stores and services fund* financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Accounting officer to indicate that the *stores and services fund* will not remain a going concern for at least the next twelve months from the date of this statement.

#### Approval of the financial statements

The *stores and services fund* financial statements were approved by the Accounting officer

On 06/10/2017 2017

  
Principal Secretary

Prof. Arch. Paul Mwangi Maringa (PHD).

CBS, Corp. Arch, MAAK MKIP

**V. REPORT OF THE INDEPENDENT AUDITOR ON THE STORES AND SERVICES FUND**

- i. We have audited the accompanying (consolidated) financial statements of *stores and services fund* for the year ended June 30, 2017, which comprise: (i) a statement of financial performance; (ii) a statement of financial position; (iii) a statement of changes in net assets; (iv) a statement of cash flows; (v) a statement of comparison of budget and actual amounts and (v) a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the financial statements**

The *stores and services fund* Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standards (IPSAS), PFM Act 2012 and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' responsibility**

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the *stores and services fund* preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the stores and services fund internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# REPUBLIC OF KENYA

Telephone: +254-20-342330  
Fax: +254-20-311482  
E-mail: oag@oagkenya.go.ke  
Website: www.kenao.go.ke



P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR GENERAL ON STORES AND SERVICE FUND– STATE DEPARTMENT OF PUBLIC WORKS FOR THE YEAR ENDED 30 JUNE 2017

---

#### REPORT ON THE FINANCIAL STATEMENTS

##### Disclaimer of Opinion

I have audited the accompanying financial statements of Stores and Service Fund set out on pages 12 to 26, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets and the statement of cash flows 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 do not express an opinion on the financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, as required by Article 229(6) of the constitution, I have not been able to obtain sufficient audit evidence to confirm that public money has been applied lawfully and in an effective way.

##### Basis for Disclaimer Opinion

###### 1.0 Presentation of Financial Statements

Examination of the Fund's financial statements for the year ended 30 June 2017 revealed instances of non-compliance with the reporting template issued by Public Sector Accounting Standards Board (IPSAB) as outlined hereunder:

###### 1.1 Unsigned Pages in the Financial Statements

The statements below were not signed by the Fund's management as required in the template:

- i. Statement of Financial Performance
- ii. Statement of changes in Net Assets
- iii. Statement of Cash flows

---

*Report of the Auditor-General on the Financial Statements of Stores and Services Fund – State Department of Public Works for the year ended 30 June 2017*

## 1.2 Missing Financial Statements Header

The financial statements as presented do not indicate the name of the Fund and the reporting year on top of each page as required in the template issued by the Board.

## 1.3 Wrong Description of Net Operating Results

The statement of Financial Performance shows the net operating results as 'Deficit for the period'. This description is not spaced and is also incorrect as the operations of the Fund resulted into net surplus.

## 1.4 Missing Disclosure Note on Bulk Purchases of Stores & Fuel

The statement of financial performance shows an expenditure item described as 'Bulk purchase of stores & fuel' with a balance of Kshs.96,461,850. This item is not properly spaced and also lacks a supporting disclosure Notes as required by International Public Sector Accounting Standards (IPSAS) 1.

## 1.5 Missing Statement of Comparison of Budget and Actual Amount

Template issued by Public Sector Accounting Standards Board (IPSAB) require that financial statements to have statement of comparison budget and actual amount which is also a requirement under paragraph 24 of International Public Sector Accounting Standards (IPSAS) 1. It was however observed that the Funds financial statements as presented do not have this statement and does therefore not comply with the Board's reporting standards.

## 2.0 Inaccuracies in the Financial Statements

A review of the Fund's financial statements for the year ended 30 June 2017 revealed several misstatements as outlined below:

### 2.1 Errors in Comparatives

A review of the comparatives balances in the financial statements showed differences with the audited balances for the year ended 30 June 2016 as follows:

Description	2016/17 (Comparatives)	2015/16 (Audited)	Variance
<b>Revenue</b>			
Sale of goods	73,273,198.71	96,639,911.34	-23,366,712.63
<b>Expenses</b>			

Bulk Purchase of stores & fuel	68,260,372	120,017,323.45	-51,756,951.45
Deficit for the Period	5,012,826.71	-23,377,412.11	28,390,238.82
<b>Current Assets</b>			
Cash and Equivalents	147,892,435	155,840,625.50	-7,948,190.50
Receivables	65,437,435.69	65,320,195.69	117,240.00
Inventories	131,879,858.35	130,121,256.10	1,758,602.25
<b>Current Liabilities</b>			
Payables	76,302,909	52,994,135	23,308,774.00
Payment in Advance	151,928,903.39	149,591,532	2,337,371.39
<b>Non-Current Liabilities</b>			
Borrowings	844,003,800	844,003,247	553.00
<b>Financing</b>			
Accumulated surplus	-848,001,253.55	-816,282,206.91	-31,719,046.64

The above differences were not reconciled or explained.

### 3.0 Statement of Financial Performance

A review of the statement of financial performance for the year ended 30 June 2017 revealed several discrepancies as outlined below:

#### 3.1 Undisclosed Fund Operating Expenditure

The statement of financial performance shows sales of goods and services amount of Kshs.100,047,543.88 and expenditure on Bulk Purchase of stores and fuel of Kshs.96,461,850 and a resultant surplus from operations of Kshs.3,585,693.88. It was however noted that the statement does not disclose costs related to operations of the Fund such as, Staff costs, utilities, motor vehicle running expenses and office running expenses. Consequently, the statement of financial performance does not reflect the correct position on results of the operations of the Fund.

#### 3.2 Sales of Goods

The statement also shows amount of Kshs.100,047,543.88 as receipts from sale of goods which was not analyzed and did not have supporting documents. It was therefore not possible to confirm the accuracy and completeness of sales of goods amount of Kshs.100,047,543.88 for the year ended 30 June 2017.

#### 3.3 Bulk Purchases of stores and Fuel

The statement further shows an amount of Kshs.96,461,850 for bulk purchase of stores and fuel. However, a schedule given in support of this amount did not show details of the payees and the date of payments. Further, management did not avail payment vouchers and the supporting procurement records for audit verification. In the circumstances the propriety, correctness and accuracy of the amount for bulk purchase of store and fuel in the financial statements could not be confirmed.

#### **4.0 Statement of Financial Position**

Examination of balances in the statement of financial position revealed the following discrepancies:

##### **4.1 Receivables**

The statement reflects receivables from exchange transactions balance of kshs.65,437,435.69 which was not analyzed. Further, management did not avail a receivables ledger or correspondences with the said debtors for audit verification. It was therefore not possible to confirm the accuracy of receivables balance reflected in the financial statements.

##### **4.2 Trade and Other Payables**

The statement of financial position also shows a balance of Kshs.97,278,341.8 in respect of Trade and other payables. Management provided two schedules in support of this of kshs.79,595,301.05 and Kshs.17,549,971.75 for stores and fuel respectively. The combined total from these two schedules was Kshs.97,145,272.80 which differed from amount in the statement above by Kshs.133,069. Further, the two schedules did not have aging analysis and the creditors' ledger was not availed for audit verification. It was therefore not possible to confirm the accuracy and correctness of the Trade and other Payables balance as at 30 June 2017.

##### **4.3 Payment Received in Advance**

The statement of financial position also has a balance of Kshs.65,051,145 for Payments received in advance which was not analyzed. The accuracy of this amount could therefore not be confirmed.

##### **4.4 Inventories – Kshs.137,830,311.55**

The statement further shows a balance of Kshs.137,830,311.55 for inventories. A schedule provided in support of this amount only showed a breakdown by station with a total of Kshs.105,785,617.77. resulting to a variance of Kshs.32,044,693.78. Further, management did not avail a stock taking report or stock sheets in support of inventories balance. In the circumstances, the accuracy of inventories balance in the financial statements could not be confirmed.

##### **4.5 Borrowings**

The statement of financial position also reflects a borrowings balance of Kshs.844,003,800.00. However, the document availed in support of this amount is a letter from Central Bank dated 8th September 2008 showing write off of overdrawn Fund's Bank account balances of Kshs.560,408,645.95. The amount in this supporting document differed from the financial statements balance of Kshs.844,003,800 by Kshs.283,595,154.05 which was not explained. It was also noted that the description

given to this balance is incorrect as overdraft write-off is a funding sour since it amounts to settling a liability without a requirement for the Fund to repay this amount.

#### **4.6 Cash and Cash Equivalents**

The statement also shows a cash and cash equivalents balance of Kshs.79,625,351.30 representing a bank balance of Kshs.79,326,057.80 and cash in hand balance of Kshs.299,293.50. However, examination of the Fund's cash book and the supporting bank reconciliation statements shows Bank balance of Kshs.81,319,219 as at 30 June 2017. Further, a cash count certificate from the Board of survey committee showed that the Fund had nil cash in hand balance as at the close of the year. In the circumstances, the accuracy and correctness of cash and cash equivalents of Kshs.79,625,351.30 could not be confirmed.

#### **5.0 Statement of Changes in Net Assets**

A review of the statement of changes in net assets for the year ended 30 June 2017 revealed the following errors:

- Balance brought forward as at 30 June 2016 description is not aligned to the corresponding amounts.
- The statement also reflects a balance for accumulated 'surplus' brought forward of Kshs.-792,904,794.79. This description is incorrect as the above 'surplus' is in negative meaning it is a deficit. Further, the audited financial statements for the year ended 30 June 2016 had accumulated balance carried down of Kshs.-816,282,206.92. The resultant difference of Kshs.-23,377,412.13 was not reconciled.

#### **6.0 Statement of Cash flows**

A review of the statement of cash flows for the year as set out in page 15 of the financial statements revealed some misstatements as follows:

##### **6.1 Receipts**

The statement shows receipts from sale of goods balance of Kshs.12,497,403 which differed from the statement of financial performance balance of Kshs.100,047,543.88 resulting to unexplained variance of Kshs.87,550,140.88.

##### **6.2 Payments**

The statement reflects payment for goods and services as Kshs.80,764,486.20 while the statement of financial performance has a balance of Kshs.96,461,850 on the same account. The resultant difference of Kshs.15,697,363.80 was not explained.

##### **6.3 Net Cash Flows from Operating Activities**

The statement further reflects a balance of Kshs.68,267,083.20 as net cash flow from operating activities which is supported by note 7 in the financial statements. A review

of the above note revealed that change in receivables in the year was shown as negative Kshs.5,950,453.20 while the statement of financial position shows that there was no change in receivables balance from 2015/16. The balance for Net Cash flow from Operating Activities amount is therefore incorrect.

## **Unresolved Prior Year Matters – Inaccuracies for the year ended 30 June 2016**

### **1.0 Inaccuracies in the Financial Statements**

The 2015/2016 financial statements presented for audit review reflected the following inaccuracies:

#### **1.1 Cash and Cash Equivalent**

Cash and Cash Equivalent balance brought forward amounts to Kshs.224,744,758 while the prior year audited financial statements reflect a balance of Kshs.224,741,758 thus resulting to un-reconciled or unexplained variance of Kshs.3,000.

#### **1.2 Inventories**

The prior year's inventories balance reflected in the financial statements amounted to Kshs.130,935,582.50 while the audited closing balance was Kshs.128,342,508.06 thus resulting to a variance of Kshs.2,593,074.44 which has not been explained.

#### **1.3 Sale of Goods**

The prior year's balance for sale of goods amounts to Kshs.32,321,404.01 while the audited balance for the account in the year 2014/2015 was Kshs.252,482,244.98. The resultant difference of Kshs.220,160,841 has not been explained. In addition, the statement of financial performance reflects sale of goods balance of Kshs.96,639,911.34 as at 30 June 2016 while the statement of cash flows reflects Kshs.90,893,142.74 thus resulting to unexplained variance of Kshs.5,746,768.60.

#### **1.4 Borrowings**

The statement of financial position reflects prior year borrowings totaling to Kshs.844,003,247 while the audited statement of financial position as at 30 June 2016 reflects a balance of Kshs.844,003,247 under the Paymaster General (PMG) Account. It is not clear and the management has not explained the correlation of the two creditors. In addition, supporting documentation was not presented for audit review.

#### **1.5 Bulk Purchases of Stores**

The statement of financial performance for the year-ended 30 June 2016 reflect payment for bulk purchases of stores and fuel of Kshs.120,017,323.45 while the statement of cash flows reflects a balance of Kshs.76,186,588.45. The resultant difference of Kshs.43,830,735 has not been explained or reconciled.

In the circumstances, the validity and accuracy of the financial statements for the year ended 30 June 2016 could not be ascertained.

## **2. Bulk Purchases of Stores and Fuel**

Note 8.4 to the financial statements indicate bulk purchases of stores and fuel of Kshs.82,135,913.45 and Kshs.37,881,410 respectively. However, schedules provided for audit review reflected balances of Kshs.83,572,057 and Kshs.36,445,266.45 for stores and fuel resulting to difference of Kshs.1,436,143.55 and Kshs.1,436,143.55 respectively which however, have not been explained. Further, supporting schedules for purchase of fuel worth Kshs.36,445,226.45 indicate that the purchase was done in 2014 and therefore does not relate to the year under review. Management has not explained the anomaly. In addition, purchases of fuel during the year amounting to Kshs.13,508,501 was excluded from these financial statements.

Under the circumstances, it has not been possible to confirm the accuracy of bulky purchases of stores and fuel balance of Kshs.120,017,323.45 reflected in the financial statements for the year ended 30 June 2016.

## **3. Cash and Cash Flow Equivalents**

The following anomalies were noted in relation to cash and cash equivalents of Kshs.155,840,625.50 included in the statement of financial position as at 30 June 2016:

- 3.1** The cash and cash equivalent balance of Kshs.155,840,625.50 reflected in the statement of financial position is at variance with the cashbook balance of Kshs.212,993 resulting to unexplained variance of Kshs.155,627,632.50.
- 3.2** Further, no evidence was presented for audit review to confirm that the Fund appointed a Board of Survey at the end of the financial year to verify the actual cash balance of Kshs.117,613 reflected in Note 8.5 (b) to the financial statements.
- 3.3** The bank reconciliation statement presented for audit review reflected receipts in the bank statement and not in the cash book of Kshs.90,785.50 and receipts in the cash book and not in the bank statement of Kshs.499,641.48. In addition, Kshs.5,387,451.60 described in the bank reconciliation statement as a cashbook under cast could not be confirmed.

In the circumstances, the validity and accuracy of cash and cash equivalent balance of Kshs.155,840,625.50 as at 30 June 2016 cannot be confirmed.

## **4. Trade and Other Payables**

Trade and other payables from exchange transactions balance reflected in the statement of financial position as at 30 June 2016 was Kshs.52,994,135. However, supporting schedules reflect a balance of Kshs.51,915,535 thus resulting to a variance of Kshs.1,078,600 which has not been explained or reconciled. Further, records available indicate that other unpaid purchases totaling to Kshs.52,280,900 were

excluded from the trade and other payables balance of Kshs.52,994,135 but no reason was given for their omission. Under the circumstances the trade and other payables from the exchange transactions balance of Kshs.52,994,135 included in the statement of financial position as at 30 June 2016 could not be confirmed.

## **5. Inventories**

The statement of financial position as at 30 June 2016 reflects inventories totaling to Kshs.130,121,256.10. However, the balance could not be confirmed since stock sheets for the year were not presented for audit review. Further, the Fund did not hold a stock taking exercise at the end of the financial year as required. Consequently, the accuracy and validity of the inventories balance of Kshs.130,121,256.10 reflected in the statement of financial position as at 30 June 2016 cannot be confirmed.

## **6. Payment Received in Advance**

The statement of financial position as at 30 June 2016 reflects payments received advance totaling to Kshs.149,591,532. However, the dates when the payments were received by the Stores and Services Fund were not presented for audit review. Further, the bank statements were not provided to confirm whether they were indeed received. Under the circumstances, the balance of Kshs.149,591,532 denoted as payments received in advance as at 30 June 2016 cannot be confirmed.

## **7. Sale of Goods**

The statement of financial performance for the year ended 30 June, 2016 reflects a balance of Kshs.96,639,911.34 while the supporting schedules presented for audit review reflected a balance of Kshs.100,274,267.44 thus resulting to a difference of Kshs.3,634,356 which has not been explained. In addition, the Fund did not maintain a sales ledger and therefore the source of the sales data could not be confirmed for the year ended 30 June 2016.

## **8. Missing Receipt Books**

The statement of financial performance reflects total revenue of Kshs.96,639,911.34. However, receipt numbers MR 6654401 to 6654450 dated September 2015 to March 2016 and receipt numbers 6654351 to 6654400 dated April 2016 were not availed for audit review. Further, the management has not explained whether revenue collected from May to June 2016 was receipted using official receipts. In the circumstances, the total revenue balance of Kshs.96,639,911.34 included in the statement of financial performance for the year ended 30 June 2016 could not be confirmed.

## **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for such internal control as management determines is necessary

to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to sustain services, disclosing, as applicable, matters related to sustainability of services.

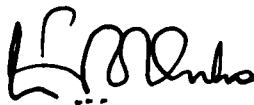
Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

### **Auditor-General's Responsibilities for the Audit of the Financial Statements**

My responsibility is to conduct an audit of the Fund's financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. However, because of the matter described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

I am independent of Stores and Service Fund in accordance with ISSAI 30 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.



**FCPA Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**04 June 2018**

**VI. STATEMENT OF FINANCIAL PERFORMANCE  
FOR THE YEAR ENDED 30 JUNE 2017**

	Notes	2016-2017	2015-2016
<b>Revenue from exchange transactions</b>		<b>Kshs '000</b>	<b>Kshs '000</b>
Sale of goods	1	100,047,543.88	73,273,198.71
<b>Total revenue</b>		<b>100,047,543.88</b>	<b>73,273,198.71</b>
<b>Expenses</b>			
Bulk purchases of stores & Fuel		96,461,850.00	68,260,372.00
<b>Total expenses</b>		<b>96,461,850.00</b>	<b>68,260,372.00</b>
<b>Deficit for the period</b>		<b>3,585,693.88</b>	<b>5,012,826.71</b>

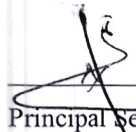
The notes set out on pages 13 form an integral part of these Financial Statements

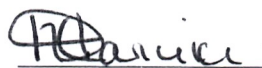
**VII. STATEMENT OF FINANCIAL POSITION AS AT 30<sup>TH</sup> JUNE 2017**

STATEMENT OF FINANCIAL POSITION			
As at 30 June 2017		2016-2017	2015-2016
Assets		Kshs '000	Kshs '000
<b>Current Assets</b>			
Cash and cash equivalents	2	79,625,351.30	147,892,435.00 ✓
Receivables from exchange transactions	3	65,437,435.69	65,437,435.69
Inventories	4	137,830,311.55	131,879,858.35
		<b>282,893,098.54</b>	<b>345,209,729.54</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables from exchange transactions	5	97,278,341.80	76,302,909.00
Payments received in advance	5	65,051,145.01	151,928,903.39
		<b>162,329,486.82</b>	<b>228,231,812.39</b>
<b>Non-Current Liabilities</b>			
Borrowings	6	844,003,800.00	844,003,800.00
		<b>844,003,800.00</b>	<b>844,003,800.00</b>
<b>Total liabilities</b>		<b>1,006,333,286.82</b>	<b>1,072,235,612.39</b>
Reserves		120,975,370.20	120,975,370.20
Accumulated surplus/Deficit		-844,415,558.98	-848,001,253.55
<b>Total net assets and liabilities</b>		<b>282,893,098.54</b>	<b>345,209,729.04</b>

**AS AT 30 JUNE 2017**

The Financial Statements set out on pages 11 to 24 were signed on by Principal Secretary.

  
 \_\_\_\_\_  
 Principal Secretary  
 Name: Prof. Arch. Paul Mwangi Maringa, (PhD)  
 CBS, Corp, Arch, MAAK MKIP

  
 \_\_\_\_\_  
 Deputy Accountant General  
 Name: Lucy Njoki Kariuki  
 ICPAK Member Number: 3599

**VIII. STATEMENT OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED 30 JUNE 2017**

	Capital replacement development reserve	Accumulated surplus	Total
	Kshs '000	Kshs '000	Kshs '000
	120,975,370.20	-792,904,794.79	-671,929,424.59
<b>Balance as at 30 JUNE 2016</b>			
Surplus/(deficit) for the period		5,012,826.70	5,012,826.70
Transfers to/from accumulated surplus	-	-60,109,285.45	-58,824,900.66
	120,975,370.20	-848,001,252.85	-725,741,497.86
Surplus for the period		3,585,693.88	3,621,463.96
Transfers to/from accumulated surplus			
<b>Balance as at 30 JUNE 2017</b>	120,975,370.20	-844,415,558.98	-723,440,188.78

*Stores and services fund*

**Reports and Financial Statements**

**For the year ended June 30, 2017**

**IX. STATEMENT OF CASH FLOWS AS AT 30 JUNE 2017**

		2016-2017	2015-2016
		Kshs '000	Kshs '000
	Notes		
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods		12,497,403.00	5,079,262.80
		12,497,403.00	<b>5,079,262.80</b>
<b>Payments</b>			
Goods and services		80,764,486.20	17,669,475.85
Other payments			64,262,110.35
		<b>80,764,486.20</b>	<b>81,931,586.20</b>
Net cash flows from operating activities	7	-68,267,083.20	-76,852,323.40
Net cash flows used in financing activities			
Net increase/(decrease) in cash and cash equivalents		-68,267,083.20	-76,852,323.40
Cash and cash equivalents at 1 JULY	2	147,892,435.00	224,744,758.40
Cash and cash equivalents at 30 JUNE	2	<b>79,625,351.80</b>	<b>147,892,435.00</b>

(IPSAS 2 allows stores and services fund to present the cash flow statement using the direct or indirect method but encourages the direct method. PSASB also recommends the use of direct method of cash flow preparation)

## NOTES TO THE FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

Supplies branch was established by the colonial government vide Treasury circular Ref.No.12/57/02 of 19th January,1960 with capital fund of k £750,000[Ksh.15million] .The main objective was to procure common-user items(for the government )in bulk to realize the benefits of economies of scale, which is true as of today.

Treasury Circular Ref. No. CFN .12/18/01 of 9th may 1961 accorded supplies branch the role of investigation of prices, the quality and source of items.

### 2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The stores and services fund financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the stores and services fund. This is the second year for the presentation of the IPSAS Accounting.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### i. Early adoption of standards

The stores services fund adopts any new or amended standards in year 2017.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### a) Revenue recognition

#### ii) Revenue from exchange transactions

##### *Rendering of services*

The stores and services fund recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

### *Sale of goods*

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the department.

### **b) Financial instruments**

#### *Financial assets*

##### *Initial recognition and measurement*

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The stores and services fund determines the classification of its financial assets at initial recognition.

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

##### *Impairment of financial assets*

The stores and services fund assesses at each reporting date whether there is objective evidence that a financial asset or a stores and services fund financial assets is impaired. A financial asset or a stores and services fund financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cashflows of the financial asset or the stores and services fund of financial assets that can be reliably estimated.

Evidence of impairment may include the following indicators:

- The debtors or stores and services fund debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### c) Financial instruments (Continued)

#### *Financial liabilities*

##### *Initial recognition and measurement*

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The stores and services fund determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

#### *Loans and borrowing*

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

### d) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the stores and services fund.

### ***Contingent liabilities***

The stores and services fund does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

### **e) Nature and purpose of reserves**

The stores and services fund maintains a historical reserves in terms of specific requirements.

### **f) Changes in accounting policies and estimates**

The stores and services fund recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

### **g) Borrowing costs**

Borrowing costs are capitalized against qualifying assets as part of property,

Plant and equipment. Such borrowing costs are capitalized over the period during which the asset is being acquired constructed and borrowings have been incurred.

Capitalization ceases when construction, of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

### **h) Cash and cash equivalents**

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

For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

### **k) Comparative figures**

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

#### 4. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the stores and services fund financial statements in conformity with IPSAS 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

State all judgements, estimates and assumptions made: e.g.

##### Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The stores and services based its assumptions and estimates on parameters available when the consolidated 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 stores and services fund. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

##### D) 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, 2017.

##### 1) Sale of goods

Description	2016-2017	2015-2016
Sales (June 2017)	KShs	KShs
Stationeries	12,329,079.25	
Households	29,273,062.50	
Hardware	57,496,590.00	
Tyres	946,312.00	
Textiles	2,500	
<b>Total revenue from the sale of goods</b>	<b>100,047,543.88</b>	<b>73,273,198.71</b>

These are sales of consumable goods held by stores and Services fund during the financial year.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

*(The amount should agree with the closing and opening balances as included in the Statement of cash flows)*

### 2) Detailed analysis of the cash and cash equivalents

		2016-2017	2015-2016
Financial institution	Account number	KShs	KShs
a) Stores and services fund			
Central bank of Kenya	1000195387	79,326,057.80	146,646,829.50
Sub- total			146,646,829.50
Cash in transit			
cash in hand		299,293.50	1,245,605.50
Sub- total		79,625,351.30	147,892,435.00
Grand total		79,625,351.30	147,892,435.00

### 3) Receivables from exchange transactions

Description	2016-2017	2015-2016
	KShs	KShs
Current receivables		
Stores and fuel debtors	65,437,435.69	65,437,435.69
Total current receivable		
Total receivables	65,437,435.69	65,437,435.69

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**4) Inventories**

Description	2016-2017	2015-2016
	KShs	KShs
Consumable stores	137,830,311.55	131,879,873.35
<b>Total inventories at the lower of cost and net realizable value</b>	<b>137,830,311.55</b>	<b>131,879,873.35</b>

**5) Trade and other payables from exchange transactions**

Description	2016-2017	2015-2016
	KShs	KShs
Trade payables	97,278,341.80	76,302,909.00
Payments received in advance	65,051,145.01	151,928,903.39
<b>Total trade and other payables</b>	<b>162,329,486.82</b>	<b>228,231,812.39</b>

**6) Borrowings**

Description	2016-2017	2015-2016
	KShs	KShs
Balance at beginning of the period	844,003,800	844,003,247.00
Balance at end of the period	<b>844,003,800.00</b>	<b>844,003,800.00</b>

**7) Cash generated from operations**

	2016-2017	2015-2016
Surplus for the year before tax	3,585,693.88	5,012,826.71
Adjusted for:		(60,109,285.45)
Working Capital adjustments		
Increase in inventory		-117,240.00
Increase in receivables	(5,950,453.20)	-944,275.85
Increase in payables	20,975,432.80	67,139,509.00
Increase in payments received in advance	86,877,756.67	-87,834,410.81
<b>Net cash flow from operating activities</b>	<b>-68,267,383.20</b>	<b>-76,852,876.40</b>

*(The total of this statement should tie to the cash flow section on net cash flows from/ used in operations)*

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### Financial Risk Management

The entity'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 organization does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

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

#### (i) Credit risk

The entity 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.

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	Total amount Kshs	Fully performing Kshs	Past due Kshs	Impaired Kshs
<b>At 30 June 2017</b>				
Receivables from exchange transactions	65,437,435		65,437,435	
Bank balances	79,625,351.30			
<b>Total</b>	<b>145,062,286.99</b>		<b>65,437,435</b>	
<b>At 30 June 2016</b>				
Receivables from exchange transactions	65,437,435.		65,437,435	
Bank balances	147,892,435.00			
<b>Total</b>	<b>218,325,820</b>		<b>65,437,435</b>	

*(NB: The totals column should tie to the individual elements of credit risk disclosed in the entity's statement of financial position)*

**(i) Credit risk (Continued)**

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

**(ii) Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the entity's stores and services fund management, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Less than 1 month	Between 1-3 months	Over 5 months	
				Total
	Kshs	Kshs	Kshs	Kshs
<b>At 30 June 2017</b>				
Trade payables		64,216,360.00	33,061,981.80	97,278,341.80
Current portion of borrowings			844,003,247.00	844,003,247.00
<b>Total</b>			<b>877,065,228.80</b>	<b>941,281,588.80</b>
<b>At 30 June 2016</b>				
Trade payables	10,486,470.00		65,816,338.10	76,302,808.10
Current portion of borrowings			844,003,247.00	844,003,247.00
<b>Total</b>	<b>10,486,470.00</b>		<b>909,819,585.10</b>	<b>920,306,055.10</b>

**Capital Risk Management**

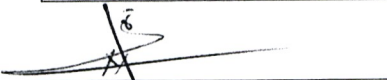
The objective of the stores and services fund capital risk management is to safeguard the management ability to continue as a going concern. The stores and services fund capital structure comprises of the following funds:

	2016-2017	2015-2016
	Kshs	Kshs
Capital reserve	120,975,370.70	120,975,370.00
<b>Total funds</b>	<b>120,975,370.00</b>	<b>120,975,370.00</b>
Total borrowings	844,003,247.00	844,003,247.00
Less: cash and bank balances	-80,297,734.80	147,892,435.00
Net debt/(excess cash and cash equivalents)	763,705,512	696,110,812
<b>Gearing</b>		

## X. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1-1.5	Presentation of financial statement	Amended	Accounting officer Professor. Arch. Paul M Maringa	Is now available for review	30/12/2017
2.	Bulk Purchases of Stores	Amended	Accounting officer Professor. Arch. Paul M Maringa	Schedule attached Not Resolved	30/12/2017
3.	Cash and Cash equivalents	Amended	Accounting officer Professor. Arch. Paul M Maringa	See amended Final Account Not Resolved	30/12/2017
4.	Other Payables	Adjusted	Accounting officer Professor. Arch. Paul M Maringa	See Final Account Adjustment Not Resolved	30/12/2017
5.	Inventories		Accounting officer Professor. Arch. Paul M Maringa	Not resolved	30/12/2017

  
Principal Secretary

Prof. Arch. Paul Mwangi Maringa (PHD).

CBS, Corp. Arch, MAAK MKIP