

REPUBLIC OF KENYA



*Enhancing Accountability*



**REPORT**

THE NATIONAL ASSEMBLY PAPERS (L.A.D.)

DATE: 12 JUN 2024, Wednesday

TABLED BY: Deputy Majority Leader  
Hon. Owen Baya, MP

CLERK AT THE DESK: Miriam Mado

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**THE AUDITOR-GENERAL**

**ON**

**KENYA NATIONAL TRADING  
CORPORATION LIMITED**

**FOR THE YEAR ENDED  
30 JUNE, 2023**

OFFICE OF THE AUDITOR GENERAL  
P. O. Box 30084 - 00100, NAIROBI  
REGISTRY

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KNTC

Kenya National Trading  
Corporation Ltd.

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**KENYA NATIONAL TRADING CORPORATION LTD**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2023**

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

## Table of Contents

I.	ACRONYMS & GLOSSARY .....	i
II.	KEY ENTITY INFORMATION .....	i
II.	THE BOARD OF DIRECTORS .....	iii
III.	KEY MANAGEMENT TEAM.....	vi
IV.	CHAIRMAN'S STATEMENT .....	ix
V.	REPORT OF THE MANAGING DIRECTOR.....	xi
VI.	STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FY 2022/2023 .....	xii
VII.	CORPORATE GOVERNANCE STATEMENT .....	xiv
VIII.	MANAGEMENT DISCUSSION AND ANALYSIS.....	xvi
IX.	ENVIRONMENTAL & SUSTAINABILITY REPORT .....	xviii
X.	REPORT OF THE DIRECTORS.....	xx
XI.	STATEMENT OF DIRECTORS' RESPONSIBILITIES.....	xxi
XII.	REPORT OF THE INDEPENDENT AUDITORS.....	xxii
XIII.	STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 <sup>TH</sup> JUNE 2023 .....	1
XIV.	STATEMENT OF FINANCIAL POSITION AS AT 30 <sup>TH</sup> JUNE 2023.....	2
XV.	STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 <sup>TH</sup> JUNE 2023 .....	3
XVI.	STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 <sup>TH</sup> JUNE 2023.....	4
XVII.	STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 <sup>TH</sup> JUNE 2023 .....	5
XVIII.	NOTES TO THE FINANCIAL STATEMENTS .....	7
XIX.	PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS.....	35
XX.	Appendix 1: PROJECTS IMPLEMENTED BY THE CORPORATION.....	37
XXI.	Appendix 3: TRANSFERS FROM OTHER GOVERNMENT ENTITIES.....	39

## I. ACRONYMS & GLOSSARY

IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
KNTC	Kenya National Trading Corporation Ltd
MD	Managing Director
MSME	Micro Small & Medium Enterprises
NT	National Treasury
PFM	Public Finance Management.
PSASB	Public Sector Accounting Standards Board

## 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 Investment, Trade and Industry 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, Mombasa, 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 M 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. Hassan Tene Debasso     | - Chairman of the Board   |
| 2. Pamela Mutua            | - Managing Director ( Up to                                       |
| 3. Peter Njoroge           | - Ag Managing Director ( From                                     |
| 4. Harrison Njoroge Mwaura | - Independent Director (Appointed in March 2023)                  |
| 5. Perez Jepkorir          | - Independent Director (Appointed in March 2023)                  |
| 6. Leonard Langat          | - Independent Director (Appointed in March 2023)                  |
| 7. Meymuna Osman Gabow     | - Independent Director (Appointed in March 2023)                  |
| 8. Lydia Wanjiku Kariuki   | - Independent Director (Appointed in March 2023)                  |
| 9. Herman Gacugi           | - Alternate to the Executive Director KDC (from December 2021)    |
| 10. Jonah Tajeu Orumoi     | - Alternate to The CS The National Treasury ( From February 2023) |
| 11. Nicholas Kamau         | - Alternate to The PS State Department of Trade (From May 2023)   |

The Following Directors also served in the Board in the year 2022/23

- |                               |  |
|-------------------------------|--|
| 1. Capt. Paul Rukaria         | - Chairman of the Board (Up to March 2023)                         |
| 2. Dr. Dorothy Muthoni Mituki | - Independent Director (Up to March 2023)                          |
| 3. Dr. Daniel K. Kirui        | - Independent Director (Up to March 2023)                          |
| 4. John Miano Ndirangu        | - Independent Director (Up to March 2023)                          |
| 5. Rose Jepkorir Ronoh        | - Independent Director (Up to March 2023)                          |
| 6. Benedicta Mworira          | - Independent Director (Up to March 2023)                          |
| 7. Kennedy Nyokwoyo           | - Alternate to The PS State Department of Trade (Up to May 2023)   |
| 8. Aggrey Kituyi              | - Alternate to The CS The National Treasury ( Up to February 2023) |

### Company Secretary

Jesca Nyamwaya  
P.O. Box 30518-00100  
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](http://www.kntc.co.ke)  
E-mail: [kntc@kntc.co.ke](mailto: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. KCB Bank Kenya Ltd  
Mashariki Branch  
P.O Box 311-00507  
Nairobi, Kenya.
4. 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



Hussein Tene Debasso  
*Board Chairman*

**Position:** Hussein was appointed as the chairman to the Board in February 2023

**Skills and experience:** He holds a Bachelor of Arts in Criminal Justice and Security Management. His area of expertise is in Criminology and Security Management.



Peter Njoroge  
*Ag. Managing Director*

**Position:** Peter was appointed as the Managing Director from 30<sup>th</sup> November 2023.

**Skills and experience:**



Harrison M. Njoroge  
*Independent Director*

**Position:** Harrison was nominated to the Board in March 2023. He is the chair of the Finance & Administration committee and a member of Technical matters Committee.

**Skills and experience:** He holds a Bachelor's qualification in Education. His area of expertise is in Education.



Perez Muge  
*Independent Director*

**Position:** Perez was nominated to the Board in March 2023. She is the Chair of the Technical matters Committee and a Member of the Audit Committee

**Skills and experience:** She holds a Bachelor's qualification in laws and Criminology. Her area of expertise is in Law.



Leonard Kipkoech Langat  
Independent Director

**Position:** Leonard was nominated to the Board in March 2023. He is the Chair of the Board Audit and Risk Committee and a member of the Technical matters Committees.

**Skills and experience:** He holds a Bachelor of Commerce, Banking and Finance and he is a certified public accountant. His area of expertise is in Finance.



Meymuna Osman Gabow  
Independent Director

**Position:** Meymuna was nominated to the Board in March 2023. She is a Member of the Finance & Administration and the Technical matters Committees.

**Skills and experience:** She holds a Bachelor of Business Management and her area of expertise is in Business development.



Lydia Wanjiku Kariuki  
Independent Director

**Position:** Meymuna was nominated to the Board in March 2023. She is a Member of the Finance & Administration and the Technical matters Committees.

**Skills and experience:** She holds a Certificate in sales and Marketing and her area of expertise is in Sales and Marketing.



Mr. Herman Gacugi  
Alternate to the Executive  
Director, KDC

**Position:** Herman was nominated to the Board in November 2021 as the Alternate to the Executive Director, KDC. He is a Member of the Finance & Administration, Technical matters and the Audit Committees

**Skills and experience:** Mr. Gacugi holds a Master of Science degree in Information Communications Technology (ICT) and a Bachelor of Commerce degree in accounting. He is also a Certified Public Accountant (CPAK) and a Certified Information Systems Auditor (CISA). He has over 15 years' experience in Financial and Commercial Services, with profound involvement in automated processes, e-commerce, corporate governance, enterprise risk management, financial services regulatory and policy frameworks, accounting, external and internal audit processes.



Jonah Orumoi  
Alternate to the PS,  
The National Treasury

**Position:** Jonah was nominated to the Board in February 2023 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:** He holds a Masters in Finance and Investments. Degree in Accounting and Finance. His area of expertise is in Finance.



Nicholas Kamau  
Alternate to the PS,  
State Department for Trade

**Position:** Nicholas was nominated to the Board in May 2023 as the Alternate to the Principal Secretary, State Department for Trade. He is a Member of the Finance & Administration and the Audit Committees

**Skills and experience:** He holds a PHD in Finance, a Masters in Commerce and a Bachelors degree in Commerce. His area of expertise is in Finance.



Jesca Nyamwaya  
Company Secretary  
& Manager Legal Services

**Position:** Jesca joined the Corporation in the position of Company Secretary & Manager Legal Services in September 2022. She spearheads strategic leadership for the Office of the Company Secretary & Legal Services.

**Skills and experience:** She holds a Masters of Law (LLM), Post Graduate Diploma in Law from Kenya School of Law and is an Advocate of the High Court of Kenya. She has over 10 years work experience. She also holds professional membership with the Law Society of Kenya (LSK), Law Society of East Africa as well as the Institute of Public Secretaries of Kenya.

### III. KEY MANAGEMENT TEAM



Peter Njoroge  
Ag- Managing Director

**Position:** Peter was appointed as the Managing Director from 30<sup>th</sup> November 2023.

**Skills and experience:**



Jesca Nyamwaya  
Company Secretary  
& Manager Legal Services

**Position:** Jesca joined the Corporation in the position of Company Secretary & Manager Legal Services in September 2022. She spearheads strategic leadership for the Office of the Company Secretary & Legal Services.

**Skills and experience:** She holds a Masters of Law (LLM), Post Graduate Diploma in Law from Kenya School of Law and is an Advocate of the High Court of Kenya. She has over 10 years work experience. She also holds professional membership with the Law Society of Kenya (LSK), Law Society of East Africa as well as the Institute of Public Secretaries of Kenya.



Lucy M. Anangwe  
Head of Strategy, Risk & Compliance

**Position:** Lucy was appointed as the Strategy & Risk Manager from February 2023. She previously served in the position of Finance and Accounts Manager.

**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 & Accounts.



Lawrence Bengat  
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.



Jeremiah Oyata  
Ag. Head, Human Resource  
& Administration

**Position:** Jeremiah was appointed Acting head of Human Resource & Administration in May 2022.

**Skills and experience:** He holds a bachelors degree in Human Resource Management with over 10 years' experience in HR and Administration. He is a member of the Institute of Human Resource Management IHRM



Fayo Hussein  
*Ag. Head, Business Development*

**Position:** Fayo was seconded from the Ministry of Trade as the interim Head of Business development in January 2023.

**Skills and experience:** Hussein holds an MBA in Strategic management, Bachelor of Commerce and several certifications including a Certificate International Trade Policy and Trade Law from Trade Policy Training Center in Africa. He is a member of Marketing Society of Kenya and an alumnus of the Equity Leadership Program and Mastercard Foundation.



Antony Nalianya  
*Ag. Manager, Sales*

**Position:** Antony was appointed acting Sales Manager from December 2022.

**Skills and experience:** He holds a bachelors' in Commerce Marketing option, and a diploma in marketing. He has over 15 years' experience in sales & marketing and has served in various capacities in the Corporation.



Amos Sikuku  
*Head of Supply Chain Management  
& Logistics*

**Position:** Amos joined the Corporation in the position of Supply Chain & Logistics Manager in September 2022.

**Skills and experience:** He holds a Masters of Science (Procurement & Contract Management). He has over 8 years work experience and holds professional membership and a practitioner's license with the Kenya Institute of Supplies Management (KISM).



Peter Wachira  
*Interim Finance & Accounts Manager*

**Position:** Peter joined the Corporation in May 2023. Prior to joining KNTC, he served as Assistant Accountant General at the National Treasury among other accounting roles since joining the Public Service in the year 1994.

**Skills and experience:** He holds a Bachelors in Business Management from Moi University, a Senior Management Course certification as well as a Strategic Leadership Development Program Certification from the Kenya School of Government (KSG). Peter is a registered member of the Institute of Certified Public Accountants Kenya (ICPAK).



Kevin Micheni  
*Head of Internal Audit*

**Position:** Kevin joined the Corporation in the position of Internal Audit Manager in September 2022.

**Skills and experience:** He holds an MBA (Strategic Management) and a Bcom (Accounting). He has over 8 years work experience and holds professional membership with Institute of Internal Auditors (IIA) and the Institute of Certified Public Accountants (ICPAK).

## 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 2022/20

### Business Environment

The country experienced a stable business environment with real GDP growing by an estimated 5.9%. 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 2.7 billion to 19.5 billion, an increase of 613%. This has seen our operating profit grow from Ksh 133 million in 2022 to a profit of Ksh 188 million in 2023. The growth is attributed to the Government's intervention through KNTC for farmers to procure subsidized fertilizer, importation of essential food commodities and purchase of rice from directly from farmers for onward selling to Government institutions. These measures will go a long way in promoting the Government's Bottom Up Economic Transformation Agenda (BETA). Our Asset base increased from Ksh 3.4 billion in 2022 to Ksh 3.6 Billion in 2023, 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, there was a change in board of directors. I want to unreservedly thank the retired board of directors for their invaluable counsel and steering us through the year and wish them all the best in their new assignments.

### **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.

  
**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, 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 61 million (net) with over KES 593 million (gross) profit from KES 96 million last year. 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 Investments, Trade and Industry, 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, 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.



**Peter Njoroge**  
**Ag -Managing Director**

## VI. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FY 2022/2023

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 10 Strategic objectives within its Strategic Plan for the FY 2019/20- 2023/2024. This plan is up for review in the current year.

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 2022/2023 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 2022/2023	
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	10,000 Tonnes	171,142 Tonnes
			Form strategic Partnerships and distribute at least 30 tonnes of seeds in the plan period	Tonnes distributed	30 Tonnes	6 Tonnes	26 Tonnes
			Enhance sales turnover of Farm equipment and implements to kshs.100 million in the plan period.	Amount sold	100mn	Kshs.22.5 Million	Kshs. 12.9 million
		Enhance supplies to Public & private organizations.	Grow business with the existing government agencies & Counties by 10% annually.	% Annual Growth	10%	13%	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 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 Receipting 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-lineservices 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%	100%	85%
			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%	100%
		Enhance availability of business systems and ensure continuity of business operations	Upgrade and Maintain ICT Infrastructure	Upgraded infrastructure	100%	75%	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 Administration 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 30<sup>th</sup> June 2023 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 30<sup>th</sup> June 2022 amounting to Kshs. 96,359,757 was transferred to the retained earnings, bringing the accumulated loss to Kshs. 145,337,814 as at 30<sup>th</sup> June 2023. As at 30<sup>th</sup> June 2023 the Corporation made a loss of Kshs 23,512,297 increasing the accumulated loss to Kshs (168,850,111).

##### Shareholders' funds

The total shareholders' fund stood at Kshs. 3,484,935,543 as at 30<sup>th</sup> June 2023 compared with Kshs. 2,697,304,963 as at 30<sup>th</sup> June 2022. During the year under review, the Corporation carried out an assets valuation exercise which saw the value of our assets grow from Ksh 2,602,483,148 to Ksh 3,461,454,761. As a result of this revaluation the revaluation reserve increased as well as deferred tax as we had to make a provision for Capital gains tax.

#### 3. Trade and Other Receivables

The trade and other receivables amounted to Kshs. 1,877,247,428 as at 30<sup>th</sup> June 2023 (net of provision for doubtful debts amounting to Kshs 93,285,954), compared to Kshs. 691,936,235 as at 30<sup>th</sup> June 2022 (net of provision for doubtful debts amounting to Kshs (69,415,607)). Except for the specific debts provided for, these debts are considered good and realizable.

#### 4. Inventories

Inventories amounted to Kshs. 8,677,405,618 as at 30<sup>th</sup> June 2023 (net of provision for obsolescence amounting to Kshs (978,800)), compared to Kshs. 102,968,548 as at 30<sup>th</sup> June 2022 (net of provision for obsolescence amounting to Kshs 584,376) in the previous year. The Corporation ventured into the commodities imports this year. The total inventories for imported commodities ie rice and cooking oil amounted to Kshs 6.7 billion.

#### 5. Cash and cash equivalents

The balance in our current accounts stands at Kshs 3,018,559,203 as at 30<sup>th</sup> June 2023 as compared to Kshs 284,955,133 as at 30<sup>th</sup> June 2022. Out of the total cash at bank amount, Kshs 1,088,225,845, Ksh 98,455,917 and Ksh 226,007,580, Ksh 1,417,143,149 is held in KCB Escrow for fertilizer, cooking oil, rice, Lamar respectively. The Corporation did not invest in short term deposits as at 30<sup>th</sup> June 2023.

## Results of our Operations

### 1. Income

All of the revenues for the year ended 30<sup>th</sup> June 2023 were domestic revenues. Our revenues are generated primarily from sales of products and rent from our leased warehouses. The total revenues, net of costs was Kshs 488,061,273 compared with Kshs 405,822,653 from the previous year. The increase in revenue is from the fertilizer subsidy program and the importation of essential commodities programme.

### 2. Expenditure

#### a) Personnel Emoluments

Personnel Emoluments relate to salaries and benefits paid to employees. They amounted to Kshs. 109,029,083 compared to Ksh 73,885,163 for the year ending 30<sup>th</sup> June 2022.

#### b) Administration expenses

Administration expenses amounted to Kshs 224,148,414 compared to the previous year which amounted to Kshs 92,654,925. The expansion of KNTC's sales activities contributed to the growth in administration costs and selling costs.

#### c) Selling & Marketing Costs

Marketing, Selling & distribution costs amounted to Kshs 72,726,435 compared to Kshs. 55,686,341 incurred in the previous year.

#### d) Directors Emoluments

Directors' emoluments were Kshs. 11,263,651 as at 30<sup>th</sup> June 2023 compared to Kshs 11,575,550 as at 30<sup>th</sup> June 2022.

### 3. Operating profits

KNTC made an operating profit before interest & tax of Kshs. 38,166,570 for the year ending 30<sup>th</sup> June 2023 compared to operating profit before tax of Kshs 139,585,573 for the year ending 30<sup>th</sup> June 2022.

### 4. Earnings per Share (EPS)

Our basic EPS was -73% for the year ended 30<sup>th</sup> June 2023 while the previous year was 60%. 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 generated by our operations was Kshs (93,760,150). The Net cash used for investing activities was Kshs. (86,979,371) while Net cash generated from financing activities was Kshs. 2,914,343,590 for the year ended June 30<sup>th</sup> 2023.

## IX. ENVIRONMENTAL & SUSTAINABILITY REPORT

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 2027, 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 June 2023, the Corporation participated in the annual Kaptagat forest deforestation 1,000 trees were planted by the Corporations.

### 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 FY2022/23, anti-corruption training of contract and full-time staff was conducted. We also 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, 2023 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, 2023 are set out on page 1-31

### Dividends

Due to the loss of Ksh.23,512,297 generated as at 30<sup>th</sup> June 2023 and retained earning of (Ksh.168,850,111), the Corporation will not declare dividends to shareholders.

### 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



**Leackey Illa**

Ag - Company Secretary

Date: 15/04/2024

## 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, 2023. This responsibility includes:

- I. Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- II. Maintaining proper accounting records, which 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, 2023, 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

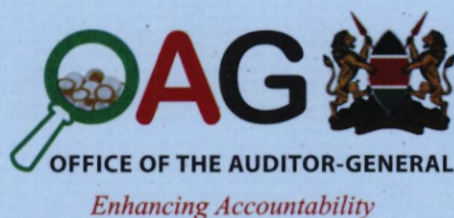
The Kenya National Trading Corporation's financial statements were approved by the Board on ..... September 2023 and signed on its behalf by:

  
.....  
Hussein Tene Debasso  
**Board Chairman**

  
.....  
Peter Njoroge  
**Ag. Managing Director**

# REPUBLIC OF KENYA

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## **REPORT OF THE AUDITOR-GENERAL ON KENYA NATIONAL TRADING CORPORATION LIMITED FOR THE YEAR ENDED 30 JUNE, 2023**

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### **PREAMBLE**

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

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

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

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

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Adverse Opinion**

I have audited the accompanying financial statements of Kenya National Trading Corporation Limited set out on pages 1 to 36, which comprise of the statement of financial position as at 30 June, 2023, and the statement of profit or loss and other comprehensive income, statement of changes in net assets, 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, because of the significance of the matters described in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of the Kenya National Trading Corporation Limited as at 30 June, 2023, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and do not comply with the Public Finance Management Act, 2012 and the Companies Act, 2015.

## Basis for Adverse Opinion

### 1. Unsupported Adjustments

Review of the financial statements revealed variances between balances reflected in the financial statements and the supporting ledger as detailed below.

	Financial Statements Balances Kshs.	Ledger Balances Kshs.	Variance Kshs.
Subsidy Fertilizer	15,534,767,319	15,553,762,319	18,995,000
Commodities Rice	225,911,000	517,862,500	291,951,500
Commodities Cooking Oil	98,140,950	131,267,223	33,126,273
Commodities Rice	293,449,293	511,977,442	218,528,149
Rent Income	93,525,217	92,196,638	1,328,579
Loss due to Foreign Exchange Rates	18,934,689	-	18,934,690
Commodity Insurance	27,843,093	-	27,843,093
Bank Charges	17,172,145	18,236,417	1,064,282
Depreciation of PPE	32,427,121	33,933,234	1,506,113
Interest on Loans & Finance Leases	71,725,108	112,594,424	40,869,316
PPE	3,442,393,095	3,604,431,882	162,038,787
Inventory	8,677,405,618	7,166,958,045	1,510,447,573
Claims Receivable	9,436,978	9,334,871	102,107
Rent Receivable	139,120,347	137,791,773	1,328,574
Revaluation During the year	811,142,877	811,398,066	255,189
Net Deferred Tax Liability	131,971,862	93,955,094	38,016,768
Deferred Grant Income	70,774,917	12,341,440	58,433,477
Trade & Other Payables	9,711,691,973	9,454,556,212	257,135,761
Interest Paid	71,125,108	2,299,919	69,425,189
Taxes Paid	56,267,529	185,863,856	242,131,385
Foreign Exchange Loss	18,934,689	0	18,934,689
Accrued Audit Fees	1,350,000	1,550,000	200,000
Salary Withholdings	1,180,000	1,103,995	76,005

In the circumstances, the accuracy and completeness of the financial statements could not be confirmed.

## **2. Inaccuracies in the Financial Statements**

Review of the financial statements submitted for audit revealed the following inaccuracies;

- i. Disclosed in Note 13 to the financial statements is increase in provision for stock obsolescence amount of Kshs.65,469 while Note 23 reflects an increase in provision of Kshs.394,424 resulting in an unexplained variance of Kshs.328,956.
- ii. The statement of profit or loss and other comprehensive income erroneously reflects total cost of sales of Kshs.18,995,433,075 which varies with the amount reflected in the corresponding Note 7 to the financial statements of Kshs.18,955,433,075 resulting to an unreconciled variance of Kshs.40,000,000. In addition, the statement reflects depreciation of property plant and equipment of Kshs.32,427,120 while the corresponding Note 14 to the financial statements reflects an amount of Kshs.40,753,345 resulting to an unexplained variance of Kshs.8,326,225.
- iii. The statement of cash flows reflects decrease in non-current lease liabilities of Kshs.353,237 which is at variance with the recomputed decrease of Kshs.4,561,358. In addition, Note 40 (a) to the financial statements reflects a decrease in current lease liabilities of Kshs.5,311,443 while re-computation of the change yielded an amount of Kshs.1,627,516.
- iv. Further, Note 20 reflects netbook value of Kshs.2,575,255,257 as at 1 July, 2022 while the asset valuation report adopted on the same date reflects total revalued amount of Kshs.3,572,618,500 resulting in a revaluation surplus of Kshs. 997,363,243. However, the statement of changes in net assets reflects revaluation surplus of Kshs.811,142,877 resulting in an unreconciled variance of Kshs.186,220,366. In addition, the asset valuation report balances vary with the reported revaluation balances as at 30 June, 2023 of Kshs.3,386,398,134 resulting in an unreconciled variance of Kshs.186,220,366.

In the circumstances, the accuracy and completeness of the financial statements could not be confirmed.

## **3. Property, Plant and Equipment**

The statement of financial position reflects property, plant and equipment net book value of Kshs.3,442,393,095 as disclosed in Note 20 to the financial statements. However, the following anomalies were noted.

### **3.1 Land without Ownership Documents**

The property, plant and equipment net book value balance of Kshs.3,442,393,095 includes land valued at Kshs.2,518,537,460 which further includes five (5) parcels of

land located in Nairobi, Naivasha, Nanyuki, Nyahururu and Kapsabet whose ownership documents were not provided.

In addition, other records indicated that there is an unresolved dispute between the Corporation and other parties in regard to ownership of parcels of land of undisclosed size and value located in Bungoma and Nakuru Counties.

### **3.2 Unsupported Diminution of Land Value**

As disclosed in Note 20 to the financial statements, during the year under review, Management made a provision for loss amounting to Kshs.520,000,000 in respect of parcels of land located on Loita Street in Nairobi and in Nakuru County.

Management has disclosed that the plot on Loita Street was irregularly surrendered to the Commissioner of Lands and that a section of the plot of land in Nakuru has been encroached upon and registered in the name of a third party. Although Management explained that investigations by various agencies are ongoing, the current status of the investigations was not provided. In addition, approval for the provision, by the Board of Directors and The National Treasury was not provided for audit. It was therefore not possible to confirm whether the loss in asset value amounting to Kshs.520,000,000 resulting from the adjustment was valid and reasonable.

Further, the revalued balance does not include one of the plots of land in Nakuru that had a carrying value of Kshs.32,928,000 before valuation and therefore no justification for its provision.

In the circumstances, the ownership, valuation and completeness of the land balance of Kshs.2,518,537,460 could not be confirmed.

### **3.3 Misstatement of Property, Plant and Equipment**

The netbook value of property, plant, and equipment is reflected as Kshs.3,442,393,095, instead of the re-casted balance of Kshs.3,626,438,205, resulting in an unexplained variance of Kshs.184,045,110. Further, the total net book value of assets reflected in the assets register was Kshs.3,142,425,988 resulting to an unreconciled variance of Kshs.299,967,107.

Further, the furniture and fitting reported depreciation charge for the year of Kshs.612,947 varied with the recomputed depreciation charge in respect of furniture and fittings as per the fixed asset register of Kshs.2,001,836 resulting to an unexplained variance of Kshs.1,388,889.

In addition, the cost or valuation of closing balance of property, plant and equipment as at 30 June, 2022 of Kshs.2,765,520,462 differs with the opening balance of Kshs.2,759,300,367 as at 1 July, 2022 resulting to an unexplained variance Kshs.6,220,095.

In the circumstances, the accuracy, ownership, and completeness of the property, plant and equipment net book value of Kshs.3,442,393,095 could not be confirmed.

#### **4. Misstatement of Intangible Asset Balance**

The statement of financial position and as disclosed in Note 22 to the financial statements reflects intangible assets opening balance of Kshs.16,966,172 which includes computer software valued at Kshs.880,400. However, the software has never been amortized since it was procured in the year 2014.

In the circumstances, the accuracy of the intangible assets balance of Kshs.16,966,172 could not be confirmed.

#### **5. Inaccuracies in Inventory Balance**

The statement of financial position reflects an inventory balance of Kshs.8,677,405,618 as disclosed in Note 23 to the financial statements. The balance includes 652,391 bags of subsidy fertilizer valued at Kshs.3,129,405,619 which was not supported by ledgers.

In the circumstances, the accuracy of the subsidy fertilizer inventory balance of Kshs.3,129,405,619 could not be confirmed.

#### **6. Long Outstanding and Unsupported Receivables Balances**

The statement of financial position reflects trade and other receivables balance of Kshs.1,877,247,428 as disclosed in Note 24 to the financial statements. The balance includes a receivable bank guarantee balance of Kshs.1,000,000 which was not supported. The trade and other receivables balance also includes receivables amounting to Kshs.369,244,070, which have been outstanding for over 90 days out of which an amount of Kshs.9,436,978 related to claims receivable and Kshs.1,672,192 related to bounced cheques have been outstanding for more than one year.

The trade and other receivables balance further included long overdue rent amounting to Kshs.86,319,756 due from tenants who had vacated the premises. However, Management did not provide evidence of efforts to recover the overdue rent.

In addition, during the financial year under review, Management made a provision for bad and doubtful debts amounting to Kshs.93,285,954 which was an increase of Kshs.23,870,347 compared to the previous year's provision of Kshs.69,415,607. However, Management did not provide the basis for provision for doubtful debts.

In the circumstances, the accuracy, completeness and collectability of the outstanding receivables balance of Kshs.1,877,247,428 could not be confirmed.

#### **7. Bank and Cash Balances**

The statement of financial position reflects bank and cash balances of Kshs.3,018,559,203 as disclosed in Note 26 to the financial statements. The statement also reflects a bank overdraft of Kshs.1,096,276,411 as disclosed in Note 35 to the financial statements. However, certificate of bank balances for balances amounting to Kshs.2,998,564,746 and the bank overdraft of Kshs.1,096,276,411 were not provided for audit. Further, requests for independent third-party confirmation of balances from

banks by the audit team were not honored. In addition, the Mombasa depot cash balance of Kshs.34,641 was not supported with a cash survey report.

Further, Management provided a list of sixteen (16) bank accounts operated by the Corporation, four (4) of which with unknown balances were not disclosed in the financial statements. Further, bank statements, cashbooks and bank reconciliation statements for the accounts were not provided.

In the circumstances, the accuracy of the bank and cash balances of Kshs.3,018,559,203 and bank overdraft balance of Kshs.1,096,276,411 could not be confirmed.

#### **8. Inaccuracies in Short-term Borrowings**

The statement of financial position reflects short-term borrowings of Kshs. 1,822,562,967 and KCB (Non-current) liability balance of Kshs.27,775,864 as disclosed in Note 35 to the financial statements all totalling Kshs.1,850,338,831. However, the supporting schedule provided reflects an outstanding loan balance of Kshs.1,737,751,718 resulting an unreconciled variance Kshs.112,587,113. In addition, the outstanding loan balance was not supported by a bank statements or certificate of bank balance.

In the circumstances, the accuracy, completeness and disclosure of the short-term borrowings could not be confirmed.

#### **9. Unconfirmed Finance Costs**

The statement of profit or loss and other comprehensive income reflects finance costs of Kshs.71,755,566 as disclosed in Note 16 to the financial statements. The costs relates to interest expenses on short term loans and lease liabilities. Review of records revealed that the agreement between the Corporation and the financier of short-term loans provided for loan enhancement costs comprising of various charges and interests. The charges included 0.45% per quarter all-inclusive and negotiation fee equivalent to 0.75% flat rate on the enhanced portion of the revolving composite trade facility. However, scrutiny of the bank statements indicated that charges and interests amounting to Kshs.257,479,067 had been paid as at 30 June, 2023 but have not been disclosed in the financial statements.

In the circumstances, the accuracy and completeness of the finance costs amounting to Kshs.71,755,566 could not be confirmed.

#### **10. Inaccuracies in Trade and Other Payables**

The statement of financial position reflects trade and other payables of Kshs.9,711,691,973 and as disclosed in Note 36 to the financial statements. Review of payables records revealed the following unsatisfactory matters;

- i. Comparison of a sample of payables balances amounting to Kshs.4,781,584,140 with third-party confirmations by the respective creditors revealed a payables balance of Kshs.6,176,415,474 resulting to an unreconciled variances of Kshs.1,394,831,334.

- ii. The trade and other payables balance of Kshs.9,711,691,973 includes an amount of Kshs.37,646,808 in respect of income tax payable. However, Note 25 to the financial statement reflects a tax recoverable of the same amount resulting to a mis-classification of receivable as payable. In addition, as disclosed in Note 25 to the financial statements the amount excludes an income tax credit of Kshs.10,076,699 for the year. This tax was calculated based on the operating loss of Kshs.33,588,996 which should not be subjected to taxation. As a result, the tax due has been understated.
- iii. Further, tax arrears which includes penalties and interests amounting to Kshs.39,399,921 relating to the period 2015/2016 to 2019/2020 were not disclosed in the financial statements.
- iv. The trade and other payables balance of Kshs.9,711,691,973 includes an amount of Kshs.41,994,207 in respect of accrued charges out of which a total of Kshs.14,255,834 related to interest and penalty levied on the long outstanding arrears on land rates in Nairobi City County. Further, documents relating to amounts owed to the County Governments of Kiambu, Mombasa and Bungoma amounting to Kshs.812,529, Kshs.2,273,578 and Kshs.272,374 respectively were not provided for audit.

In the circumstances, the accuracy and completeness of the trade and other payables balance of Kshs.9,711,691,973 could not be confirmed.

## **11. Unsupported Deferred Income**

The statement of financial position and as disclosed in Note 34 to the financial statements reflects deferred income balance of Kshs.70,774,917. The balance is net of payments amounting to Kshs.119,713,227. However, the payments were not amortized in the statement of profit or loss and other comprehensive income as required by International Accounting Standard (IAS) 20 accounting for government grants. Further, the deferred income ledger was not provided for audit.

In the circumstances, the accuracy and completeness of differed income of Kshs.70,774,917 could not be confirmed.

## **12. Unsupported Other Income**

The statement of profit or loss and other comprehensive income reflects other income of Kshs.97,921,424 which as disclosed in Note 9 to the financial statements, includes rent income of Kshs.93,525,217. However, lease agreements for five (5) tenants whose rental income amounted to Kshs.8,389,916 were not provided for audit review. In the circumstances, the accuracy and completeness of other income balance of Kshs.97,921,424 could not be confirmed.

## **13. Unsupported Expenditures**

### **13.1 Selling and Distribution Costs**

The statement of profit or loss and other comprehensive income and as disclosed in Note 13 to the financial statements reflects selling and distribution costs of

Kshs.72,726,435. However, sampled payment vouchers relating to selling and distribution expenses amounting to Kshs.6,435,692 were not provided for audit while payment vouchers amounting to Kshs.1,080,618 were not supported with records such as local purchase order, delivery/inspection reports, procurement records and approvals for the activities.

### **13.2 Unsupported Staff Travel and Subsistence**

The statement of profit or loss and other comprehensive income reflects administration costs of Kshs.224,148,414 as disclosed in Note 10 to the financial statements. The amount includes staff travel and subsistence amount of Kshs.48,104,035. However, Management did not provide supporting documents such as requisition for activities, approvals and evidence of travel to support the expenditure amount.

In the circumstances, the accuracy and completeness of the expenditure of Kshs.72,726,435 and Kshs.48,104,035 in respect of selling and distribution, and staff travel and subsistence costs could not be confirmed.

### **14. Unsupported Payroll Expenditure**

The statement of profit or loss and other comprehensive income reflects personnel emoluments amounting to Kshs.109,029,083 and as disclosed in Note 11 to the financial statements. However, salary payments vouchers for five (5) months were not provided for audit review. Further, the salary payment for the month of November, 2022 had not been posted in the system ledger.

In addition, payment records supporting remittance of Pay as You Earn (PAYE) deductions for the months of April, 2023, May, 2023 and June, 2023 were not provided and were not posted in the system ledger. It was therefore not possible to confirm whether P.A.Y.E deductions for the three months amounting to Kshs.4,728,979 was remitted to the Kenya Revenue Authority.

In the circumstances, the accuracy and completeness of personnel expenditure of Kshs.109,029,083 could not be confirmed.

### **15. Unsupported Board Expenditure**

The statement of profit or loss and other comprehensive income reflects Directors' emoluments amounting to Kshs.11,263,651 and as disclosed in Note 12 to the financial statements. However, payment of sitting allowances amounting to Kshs.1,545,522 were not supported with minutes for the Board meetings and notices to Board Members to attend the meetings.

In the circumstances, the accuracy and completeness of Directors' emoluments of Kshs.1,545,522 could not be confirmed.

### **16. Unsupported Sales**

The statement of profit or loss and other comprehensive income reflects an amount of Kshs.19,114,373,564 in respect of sales as disclosed in Note 6 to the financial statements. The following unsatisfactory issues were noted:

### **16.1 Sale of Commodity Rice**

The sales of Kshs.19,114,373,564 includes an amount of Kshs.225,911,000 from sale of commodity rice. The latter amount which further includes an amount of Kshs.188,686,000 from sale of 104,270 bags of 25kg white rice. However, review of the stores records and physical stock sheets indicated that as at 30 June, 2023, the Corporation had only received 56,371 bags of 25kg white rice which were still held at the warehouse. Therefore, the sales were overstated by Kshs.188,686,000.

### **16.2 Sale of Subsidy Fertilizer**

Further, the sales balance of Kshs.19,114,373,564 includes an amount of Kshs.15,534,767,319 from sale of subsidy fertilizer. However, the e-voucher system redemption report reflected total sales amount of Kshs.15,308,270,150 resulting to a variance of Kshs.226,497,169.

### **16.3 Sale of Commodity Cooking Oil**

In addition, the sales amount of Kshs.19,114,373,564 includes commodity cooking oil sales of Kshs.98,140,950, being sale of 26,386 of 20-litre jerrycans of cooking oil. Review of records including the ledger provided revealed that goods were released to customers by the collateral managers upon the customer making payments to the bank. However, records indicated that sales amounting to Kshs.131,267,223 were made but only Kshs.98,140,950 was paid to the bank resulting to an unaccounted-for sales amounting to Kshs.33,126,273.

### **16.4 Sale of Sugar, Magadi Salt and Cement**

Included in the sales amount of Kshs.19,114,373,564 are sales totalling Kshs.176,980,009 relating to the sale of sugar, Magadi salt and cement. Analysis of the cashbook revealed total payments made to suppliers during the year amounting to Kshs.220,171,195 which could not be recociled with Kshs.176,980,009. In addition, payments amounting to Kshs.77,453,568 were not supported with payment records such as payments vouchers, invoices and evidence of delivery. Further, out of the payment vouchers provided, payments amounting to Kshs.23,150,529 were not posted to the trading items system ledger.

In the circumstances, the accuracy and completeness of the subsidy fertilizer, commodity rice and commodity cooking oil sales totalling Kshs.15,858,819,269 could not be confirmed.

## **17. Unsupported Cost of Sales**

The statement of profit or loss and other comprehensive income and as disclosed in Note 7 to the financial statements reflects cost of sales amounting to Kshs.18,955,433,075 which comprised of the cost of purchase and other incidental costs- including fuel, subsistence allowances for the driver and other handling cost. However, an amount of Kshs.3,420,665,757 was not supported with detailed analysis of its composition as detailed below;

<b>Product Category</b>	<b>Amount (Kshs.)</b>
Fertilizer	174,566,668
Rice	1,640,247,288
Sugar	80,252,505
Magadi Salts	83,693,177
Cement	13,034,327
Hardware and Special Orders	49,119,774
Farm Inputs and Implements	74,369,694
Others	997,670
Pulses	885,753,100
Commodities Rice	293,449,293
Commodities Cooking Oil	125,182,261
<b>Total</b>	<b>3,420,665,757</b>

Further, review of payment records revealed cash withdrawals amounting to Kshs.6,725,220 that was used to pay staff as commodities handling charges at various warehouses. However, the warehousing contracts indicated that warehousing charges included handling charges. Although Management explained that the charges related to other incidental costs no evidence in support of the costs was provided.

In the circumstances, the accuracy and completeness of the cost of the sales 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 adverse opinion.

### **Key Audit Matters**

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

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Adverse Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources and sections of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

## Basis for Conclusion

### 1. Noncompliance with the Public Sector Accounting Standards Board Reporting Template

Review of the annual report and financial statements of the Corporation revealed that the performance results as per the Report of the Managing Director and Chairman's statement did not tally with the amounts reflected in the financial statements as detailed below;

Item	Amount as per Report of the Managing Director/Chairman's Statement (Kshs.)	Actuals Amount as per the Financial Statements (Kshs.)
Sales Revenues	19.5B	19.1B
Gross profit	593M	159M
Net profit	61M	(23M)
Operating profit	188M	38M
Asset Base	3.6 B	3.5B

In addition, the appendix on transfers from other government entities, list of projects implemented by the entity were blank.

In the circumstances, Management did not comply with the Public Sector Accounting Standards Board (PSASB) recommended reporting template.

### 2. Delay in Completion of Renovation of Karatina Warehouse

Note 20 to the financial statements reflects additions to work in progress balance of Kshs.10,158,560. Review of records revealed that, on 5 December, 2022, a contract was awarded to a contractor for the renovation of Karatina warehouse block 1/71 at a contract sum of Kshs.17,090,290 for a contract period of sixteen (16) weeks commencing on 27 February, 2023. Physical verification of the works in February, 2024, revealed that the works were not complete and no evidence of extension of the contract period was provided.

In the circumstances, delays in completion of the contract may lead to cost over runs and the public may not obtain value for money on this project.

### 3. Irregular Procurement of Assets

As disclosed in Note 20 to the financial statements, additions to assets amounted to Kshs.88,422,081 comprising of Kshs.10,158,560, Kshs.615,815, Kshs.12,066,821, Kshs.14,082,085 and Kshs.51,498,800 in respect of work in progress, machinery and office equipment, computers and ICT equipment, furniture and fittings and motor vehicles respectively. Review of the annual procurement plan revealed that Management had budgeted an amount of Kshs.4,500,000 for computer hardware, software, and accessories procurement. However, actual computer hardware

procurement during the period totalled Kshs.12,066,821 resulting in an unbudgeted procurement of Kshs.7,566,821. Further, the additions in respect of furniture and fittings, motor vehicles and machinery and office equipment were not in the procurement plan for the year.

In addition, a contract for the supply of assorted furniture was awarded to a supplier in September, 2022 at contract sum of Kshs.11,689,500 vide Local Purchase Order (LPO) No.4388. However, before delivery of the goods, the supplier requested to modify the specifications of the furniture and vary the contract sum by an amount of Kshs.2,688,585 to Kshs.14,378,085. The request was approved by the Evaluation Committee and an LPO No.4518 for the additional amount issued in October, 2022. The variation resulted in increase in price contrary to Section 139 (3) of the Public Procurement and Asset Disposal Act, 2015 that provides that no contract price shall be varied upwards within twelve months from the date of the signing of the contract.

In the circumstances, the public may not have obtained value for money in the above contracts. In addition, Management was in breach of the law.

#### **4. Irregular Price Variation of Contract**

The statement of profit or loss and other comprehensive income reflects administration costs of Kshs.177,370,632 which as disclosed in Note 10 to the financial statements includes staff welfare costs of Kshs.32,288,041. The latter amount includes expenditure incurred on cleaning and tea making services. Review of records revealed an addendum to adjust contract for cleaning and tea making services from Kshs.362,400 per month to Kshs.512,400 per month.

The contract price adjustment was effective 27 February, 2023, nine (9) months from the original contract date of 30 May, 2022. The adjustment resulted to an increase of the contract price by approximately 42% which is more than 25%, allowable by the law. In addition, the variation arose after a request by the contractor and which an Ad-Hoc Evaluation Committee irregularly approved to extend the contract.

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

#### **5. Under Utilization of the Enterprise Resource Planning System**

The statement of financial position reflects intangible assets balance of Kshs.6,122,324 which includes the Corporation's Enterprise Resource Planning (ERP) system, net book value of Kshs. 5,241,924. Review of records revealed that Management engaged a vendor for the supply, delivery, design, installation, customization, testing, training and commissioning of an ERP system at a cost of Kshs.17,473,080 in the year 2017. The vendor was further engaged, through a Service Level Agreement, to provide continuous system support on errors arising in all modules, implementing enhancements to meet new requirements and provide timely and prompt responses.

In addition, the user acceptance test agreement between the vendor and client dated 13 December, 2017, revealed that all finance modules were signed off as having passed all tests including producing records and financial statements. It was however,

noted that the Corporation does not fully utilize the modules to generate cashbooks and financial statements.

In the circumstances, the public may not have obtained value for money in the system contract.

## **6. Noncompliance with the Law on Imprest Management**

Review of the imprest register provided revealed instances where Management issued multiple imprests and undue delays in accounting for the imprests by officers. This was contrary to Regulation 92 (5) of the Public Finance Management (National Government) Regulations, 2015 which provides that a holder of a temporary imprest shall account or surrender the imprest within seven (7) working days after returning to duty station.

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

## **7. Unauthorized Opening of Bank Accounts**

During the year under review, Management operated sixteen (16) bank accounts out of which eleven (11) bank accounts were opened with a local bank. However, The National Treasury vide a letter dated 19 October, 2022 only authorized the Corporation to open and operate one official bank account with the bank. The additional accounts were opened contrary to Section 28 (1) of the Public Finance Management Act, 2012, which states that The National Treasury shall authorize the opening, operating and closing of bank accounts and sub accounts for all National Government entities in accordance with regulations made under this Act.

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

## **8. Unauthorized Bank Overdraft**

As disclosed in Note 35 to the financial statements, the Corporation had a bank overdraft of Kshs.1,096,276,411 as at 30 June, 2023. Review of records revealed that an agreement dated 10 January, 2023 between the Management and a local bank provided for an overdraft limit of Kshs.100 million. However, the Corporation's dollar account's bank balance for the period was over drawn by an amount of Kshs.1,096,276,411 which was beyond the agreed limit by an amount of Kshs.996,276,411. Further, the approval from The National Treasury for the overdraft was not provided. This was contrary to Section 7 of the Public Finance Management Act, 2012 which states that no official government bank account shall be overdrawn, or any advance or loan obtained from a bank account for official purposes beyond the limit authorized by The National Treasury in line with Section 28(4) of the Act.

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

## **9. Wasteful and Avoidable Expenditure**

During the year under review, the Corporation paid demurrage charges amounting to Kshs.94,925,642 as a result of delay in clearing goods from several Container Freight

Stations (CFSs). The costs were caused by delay in filing the requisite documentation, time taken to amend errors in the bill of lading and delay in payment of requisite fees. In the circumstances, the public may not have obtained value for money on expenditure on interest, penalties and demurrage costs.

#### **10. Irregular Expenditure on Behalf of Parent Ministry**

Review of expenditure records revealed several payments incurred to finance various activities of the Ministry of Investment Trade and Industry amounting to Kshs.9,604,259. No sufficient justification was provided by Management for incurring expenditure on behalf of the parent Ministry. Although Management explained that the activities related to the Corporation's core mandate and had been budgeted for there were no evidence linking the particular activities to the Corporation were provided.

In the circumstances, the regularity of the expenditure could not be confirmed.

#### **11. Lack of Approval of Supplementary Budget**

The statement of comparison of budget and actual amounts reflects total income and total expenditure final budgets of Kshs.588,698,630 and Kshs.557,900,930 respectively, against actual revenue and actual expenses on comparable basis of Kshs.488,061,273 and Kshs.511,573,570 respectively. In addition, Management exceeded the budget provision in administration costs and finance costs by an amount of Kshs.33,668,484 and Kshs.58,155,566 or 18% and 428% of the budget. However, no approval of the supplementary budget and reallocations by the Board of Directors and The National Treasury was provided.

Further, the statement reflects budgeted government grants of Kshs.142,500,000 and actual receipt of Kshs.159,519,920 being recurrent grant of Kshs.107,019,920 and development grant of Kshs.52,500,000 resulting to an overfunding by Kshs.17,019,520 or approximately 12% of the budget.

Further, the Corporation reflected commission income from sale of fertilizer of Kshs.231,199,360 that was not budgeted for. This was contrary to Regulation 31(2) of the Public Finance Management (National Government) Regulations, 2015 which states that an Accounting Officer is responsible, in particular for ensuring that all services which can be reasonably foreseen are included in the estimates and that the estimates prepared are complete and accurate as possible.

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

#### **12. Non-Compliance with the One Third of the Basic Salary Rule**

Analysis of the payroll for the year under review revealed that during various months of the year, five (5) officers earned net pay that was below a third of their basic salaries. This was contrary to Section 19 (3) of the Employment Act, 2207 that states that an employer may make deductions from an employee's salary provided the deductions do not exceed two-thirds of the employee basic salary.

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

### 13. Unsupported Supply of Subsidy Fertilizer

During the year, Management sold a total of 3,302,848 bags of various varieties of subsidy fertilizer. Review of records for a sample of quantities supplied revealed that quantities specified in the Local Purchase Orders (LPOs) totalling 1,003,800 bags, whereas the actual quantities delivered amounted to 1,913,269 bags. This resulted to 909,469 bags valued at Kshs.4,076,392,100 delivered without supporting LPOs as detailed in the table below.

Product	Quantity Supplied (Bags)	Quantity as per LPO (Bags)	Quantity Over-Supplied (Bags)	Price Per Bag (Kshs.)	Amount (Kshs.)
Kynoch	770,335	518,800	251,535	4,500	1,131,907,500
Prilled Urea	425,954	80,000	345,954	4,400	1,522,197,600
Yara Can	477,230	200,000	277,230	4,550	1,261,396,500
Microp Plus topdressing	225,490	200,000	25,490	4,550	115,979,500
Yara Sulfan	14,260	5,000	9,260	4,850	44,911,000
<b>Total</b>	<b>1,913,269</b>	<b>1,003,800</b>	<b>909,469</b>		<b>4,076,392,100</b>

In the circumstances, regularity of the oversupplied fertilizer could not be confirmed.

### 14. Procurement of Bulk Commodities

During the year under review, The Cabinet approved positioning of the Corporation as a key entity in stabilizing prices for essential goods and farm inputs through importation and distribution initiatives and the establishment of strategic reserves. Review of records established that approvals were granted for the importation of food commodities, opening of a bank account for the programme, and authority to obtain lines of credit totalling Kshs.24 billion for importation and distribution activities.

Further, on 1 December, 2022, the Cabinet Secretary, National Treasury granted an approval for use of Specially Permitted Procurement Procedure (SPPP) method in line with the Corporations Procurement Policy for administrative and commercial activities. Review of procurement records for a sample of contracts for the supply of various food commodities, clearing agents, warehousing and collateral management services totalling Kshs.55,056,420,174 revealed the following unsatisfactory matters;

- i. Bidders submitted their quotations for the supply and delivery of bulk commodities which were opened on 11 November, 2022. However, the appointment letters for the Members of the Tender Opening Committee and the five (5) Members of the Ad-Hoc Evaluation Committee were not provided for audit.
- ii. The bidders were subsequently notified of the awards on 21 November, 2022 which was before the approval for use of SPPP on 1 December, 2022 and before the professional opinion from the Manager - Supply Chain and Logistics

recommending the award of contracts that was done on 22 November, 2022. In addition, Management did not provide the approved Procurement Policy for commercial activities that had been presented to the Cabinet Secretary while seeking for approval to use SPPP.

- iii. The Evaluation Committee in its minutes signed of 18 November, 2022 indicated that thirty-one (31) bids were received and subjected to evaluation. Fourteen (14) bids were found to be responsive and recommended for award of various contracts. However, Management did not provide evidence on how the thirty-one (31) bidders were identified.
- iv. Management explained that a list of nine hundred and seventy-one (971) customs agents listed on Kenya Revenue Authority website for year 2022 was picked. A Request For Quotations (RFQs) for clearing and forwarding services of imported commodities was sent to fifteen (15) of the customs agents. However, Management did not provide the selection criteria of the fifteen (15) firms.
- v. The Corporation leased several warehouses in Mombasa and Nairobi for storage of the imported bulk commodities through restricted tendering method of procurement without justification. In addition, the agreements between the Corporation and landlords of two (2) leased warehouses were not provided.
- vi. Management entered into a contract with a collateral management firm, for the management and control of stock on behalf of the Kenya Commercial Bank for goods procured through the line of credit. The collateral management firm was procured using restricted tendering method. However, Management did not provide for audit review procurement documents such as Tender Opening and Evaluation Committee minutes.

In the circumstances, lack of the approved procurement policy for commercial activities, on whose basis approval for the use of Specially Permitted Procurement Procedure (SPPP) method was provided, regularity of the procurement and value for money for the expenditure incurred on the procurement of bulk commodities could not be confirmed.

## **15. Commodity Beans**

Review of records revealed that the Management awarded a contract to a company on 10 May, 2023 for the supply and delivery of beans. On 23 May, 2023 Management gave an undertaking to pay a financier within 30 days from the date of delivery of goods. The financier was to finance the supplier with a working capital of Kshs.5,443,500.

Management issued two Local Purchase Orders to the supplier dated 19 June, 2023 and the supplier delivered a total of forty thousand (40,000) 50 kgs bags of beans on 19 June, 2023 and 11 July, 2023. Thereafter, the supplier issued a credit note to the Corporation which was acknowledged by the Corporation and released the beans back to the supplier. However, on 9 December, 2023 the Corporation received a demand letter from lawyers acting on behalf of the financier, seeking to be paid an amount of Kshs.8,379,428 which included the principal of Kshs.5,443,500 and

accrued interest for not honoring the undertaking to pay the financier. By the time the demand letter was issued by the financier, the Corporation had released the beans to the supplier. The undertaking by Management to pay the financier subjected the Corporation to a risk of legal suit and loss of funds.

In the circumstances, the legality of the contract for the supply of beans could not be confirmed.

## **16. Loss of Commodities Stock**

Review of records revealed losses of the imported commodities as outlined below;

### **16.1 Loss of Commodity Rice**

Review of records revealed that one of containers holding 540 bags of 50Kg white rice worth Kshs.2,970,000 was lost while in transit from the Port to a warehouse in Mombasa. Although the Corporation wrote to demand compensation from the clearing agent, the compensation was yet to be received as at the time of audit in February, 2024.

Further, the Corporation lodged insurance claims for the loss of 3,805 bags of rice as a result of short landings, damages and handling during offloading and rebagging all totalling Kshs.19,432,361. The insurance claims were lodged with three insurance companies which as at the time of audit in the month of February, 2024 had not been honored. In addition, review of insurance certificates revealed that the Corporation is named as the insured in only one of the firms for which a claim of Kshs.5,808,800 was made. The other claims with the remaining two (2) insurance firms had other companies as the insured hence it was not clear why the Corporation was claiming compensation from the insurance firms for a contract it was not party to.

### **16.2 Loss of Subsidy Fertilizer**

Review of fertilizer subsidy records indicated that seven (7) trucks loaded with a total of three thousand nine hundred and forty (3,940) bags of fertilizer products worth Kshs.21,780,000 were lost while in transit. The agreement between the transporter and the Corporation provided for the transporter to compensate the Corporation for loss of goods while on transit. However, the Corporation lodged a claim with an insurance company for compensation of Kshs.21,780,000 instead of claiming the same from the transporter. The claim had not been honored as at the time of the audit. Further, review of goods received notes, delivery instructions and dispatch reports, revealed shortfall of 1,914 bags of fertilizer worth Kshs.9,977,292 received in the various KNTC and National Cereals and Produce Board (NCPB) Depots from the Port of Mombasa. The losses have not been disclosed in the financial statements.

In the circumstances, there is risk of loss of public funds from the loss of the commodities. In addition, the value for money for the Kshs.45,380,853 could not be confirmed.

## **17. Withheld Inventory Due to Rent Arrears**

Physical verification of bulk commodities inventories undertaken in February, 2024 revealed that a total of 358,837 of 20-litre jerrycans edible oil with a value of Kshs.1,512,713,257 were stored at various Container Freight Stations. However, the inventory was not accessible to the Corporation for sale due to rent arrears. In addition, rice stock of 27,015 bags worth Kshs.120,560,584 was held at a warehouse in Mombasa due to non-payment of rent by the Corporation.

Management has explained that the non-payment was due to the irregular process through which the warehouses were acquired by the Corporation and that the opinion of the Attorney-General had been sought on how to handle the matter. However, the matter had not been concluded as at the time audit.

In the circumstances, the quality and value for money for the goods worth Kshs.1,633,273,841 withheld could not be confirmed.

## **18. Irregular Procurement of Legal Services**

The Law Society of Kenya filed a law suit in April, 2023 seeking to stop the Corporation from importing and selling duty free cooking oil and Management appointed an advocate to act on its behalf. The advocate sent a fee note of Kshs.597,354,996 on 11 July, 2023 which was discounted to Kshs.150,000,000 and Management made a payment of Kshs.60,000,000 on 25 July, 2023 (2023/2024 financial year), being part payment of the Kshs.150,000,000. However, Management did not provide procurement documents to support the award of tender. In addition, it is not clear how a discount of Kshs.447,354,996 or approximately 75% was arrived at.

Further, the Corporation was issued with two (2) fee notes by the same advocate amounting to Kshs.133,400,000 in respect of a different case. This litigation has not been disclosed as contingent liabilities in the financial statements.

In the circumstances, the regularity of the legal fees could not be confirmed.

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

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, because of the significance of the matters discussed in the Basis for Adverse Opinion and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

## 1. Internal Control Weakness in Management of Inventory

Review of records and physical verification of various Corporation depots revealed unreconciled inventory variances, discrepancies between recorded stock levels and physical stock, delays in banking of cash sales, and an updated stores ledgers and bin cards. Further, efforts by Management to dispose obsolete and expired products worth Kshs.978,000 as detailed in the table below was not disclosed.

Item	Normal Trading Rice	Unit	Quantity	Unit Price Kshs.	Amount Kshs.
Rice Depot	Sindano Rice	50 Kgs bags	72	5,197	374,169
Rice Depot	SPR Brown Rice	1Kg (Pkt)	1,450	180	261,000
Rice Depot	SPR Rice	2kgs Pkt	275	400	110,000
Kisumu Depot	MRG Rice	50Kgs bags	2	9,000	18,000
Kisumu Depot	MRG Classic Rice	2kgs (Pkt)	99	400	39,600
Kitale Depot	Mavuno Fruits	Pkt	5	3,215	16,075
Nakuru	MRG Classic Rice	2kgs (Pkt)	19	284	5,396
Nakuru	Basagran Herbicide	5Ltrs bottles	21	7,360	154,560
<b>Total</b>					<b>978,800</b>

In the circumstances, the existence of effective controls in inventories Management could not be confirmed.

## 2. Weakness in Payment Voucher Processing

Review and analysis of data obtained from the system and cashbook data provided revealed that, during the year under review, the Corporation's payment vouchers (PVs) ranged between PV No. 6492 to PV No. 11884 resulting to a total of 5,393 PVs out of which 2,917 vouchers were missing from the list of the posted vouchers in the system. In addition, various payments posted in cash books did not have voucher numbers. Further, review of the Corporation sampled payment vouchers revealed that vouchers amounting to Kshs.484,125,637 were not approved by the responsible officer.

In the circumstances, the existence of effective controls on payment voucher processing could not be confirmed.

## 3. Incomplete Asset Register

The fixed asset register provided was incomplete as it lacked details of date of acquisition of various assets, location, and asset tag numbers. This was contrary to Regulation 139(1)(a) of the Public Finance Management (National Government) Regulations, 2015 which states that the Accounting Officer of a national government entity shall take full responsibility and ensure that proper control systems exist for assets and that preventative mechanisms are in place to eliminate theft, security threats, losses, wastage and misuse. In the circumstances, existence of effective internal controls on assets could not be confirmed.

#### **4. Weakness in Sales Management**

Review of various sales ledgers revealed sales returns amounting to Kshs.37,589,172. which Management has explained was as a result of errors such as double invoicing. However, review of a sample of credit notes provided revealed that they were not approved while journal vouchers were not provided.

In the circumstances, existence of effective internal controls, including governance on the sales returns could not be confirmed.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standard requires that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, 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 my 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 not been kept by the Corporation, so far as appears from the examination of those records; and,
- iii. The Corporation's financial statements are not in agreement with the accounting records and returns.

#### **Responsibilities of Management and the Board of Directors**

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

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

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the

activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

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

### **Auditor-General's Responsibilities for the Audit**

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

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

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

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

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

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

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

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

  
FCPA Nancy Gatindiga, CBS  
**AUDITOR-GENERAL**

**Nairobi**

**15 May, 2024**

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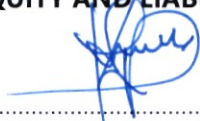
*Report of the Auditor-General on Kenya National Trading Corporation Limited for the financial year ended 30 June, 2023*

### XIII. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2023

	Note	2022/2023 Kshs	2021/2022 Kshs
<b>REVENUES</b>			
Sales	6	19,114,373,564	2,710,429,302
Cost of Sales	7	(18,995,433,075)	(2,398,817,579)
Gross Profit		<b>158,940,489</b>	<b>311,611,723</b>
Commission Income	8	231,199,360	-
<b>Trading Income</b>		<b>390,139,849</b>	<b>311,611,723</b>
Other Income	9	97,921,424	94,210,930
<b>Total Revenues</b>		<b>488,061,273</b>	<b>405,822,653</b>
<b>OPERATING EXPENSES</b>			
Administration Costs	10	224,148,414	92,654,925
Personnel Emoluments	11	109,029,083	73,885,163
Directors Emoluments	12	11,263,651	11,575,550
Selling & Distribution Costs	13	72,726,435	55,686,341
Depreciation of Property & Equipment	14	32,427,120	32,242,593
Other Expenses	15	300,000	192,508
<b>Total Operating Expenses</b>		<b>449,894,703</b>	<b>266,237,080</b>
<b>Operating Profit/(Loss)</b>		<b>38,166,570</b>	<b>139,585,573</b>
Finance Costs	16	71,755,566	1,928,778
<b>Profit/(Loss) Before Taxation</b>		<b>(33,588,996)</b>	<b>137,656,796</b>
Income Tax Expense/(Credit)	17	(10,076,699)	41,297,039
<b>Profit/(Loss) After Taxation</b>		<b>(23,512,297)</b>	<b>96,359,757</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Grants from National Government	18	159,519,920	37,500,000
Revaluation Gain	20	811,142,877	
Deferred Income on Revaluation		(121,709,710)	
<b>Other Comprehensive Income</b>		<b>848,953,087</b>	
<b>Total Comprehensive income/(Loss)</b>		<b>825,440,790</b>	<b>133,859,757</b>
Earnings per share – Basic and diluted	19	-73%	60
Dividends per Share		-	-

#### XIV. STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2023

		<u>2022/2023</u>	<u>2021/2022</u>
<b>ASSETS</b>	<b>Note</b>	<b>Kshs</b>	<b>Kshs</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	20	3,442,393,095	2,575,255,258
Right of Use of Assets	21	12,939,343	15,903,642
Intangible assets	22	6,122,324	11,324,248
<b>Total Non-Current Assets</b>		<b>3,461,454,761</b>	<b>2,602,483,148</b>
<b>Current Assets</b>			
Inventories	23	8,677,405,618	102,968,548
Trade and other receivables	24	1,877,247,428	691,936,235
Bank and cash balances	26	3,018,559,203	284,955,133
<b>Total Current Assets</b>		<b>13,573,212,249</b>	<b>1,079,859,916</b>
<b>Total Assets</b>		<b>17,034,667,010</b>	<b>3,682,343,064</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Share Capital	27	32,000,000	32,000,000
Revaluations Reserve	28	3,621,785,654	2,810,642,777
Retained Earnings	29	(168,850,111)	(145,337,814)
<b>Capital and Reserves</b>		<b>3,484,935,543</b>	<b>2,697,304,963</b>
<b>Long Term Liabilities</b>			
Rent Lease Deposits	30	15,878,629	14,435,919
Lease Liabilities (Non-Current Portion)	31	9,781,457	14,342,815
KCB (Non current)	35	27,775,864	-
Deferred Tax Liability	32	131,971,862	116,851,471
Rice Fund	33	660,000,000	660,000,000
<b>Total Non-Current Liabilities</b>		<b>845,407,812</b>	<b>805,630,205</b>
<b>Current Liabilities</b>			
Lease Liabilities (Current Portion)	31	3,017,387	1,389,871
Short Term Loans	35	1,822,562,967	-
Trade and other payables	36	9,711,691,973	147,049,801
KCB Overdraft	35	1,096,276,411	-
Deferred Income (Grant)	34	70,774,917	30,968,224
<b>Total Current Liabilities</b>		<b>12,634,364,527</b>	<b>179,407,896</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>17,034,667,010</b>	<b>3,682,343,064</b>



**Peter Wachira**

Finance & Accounts Manager  
 ICPAK Reg No. 20417



**Peter Njoroge**

Ag- Managing Director



**Hussein Tene  
 Debasso**  
 Chairman

**XV. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2023**

	SHARE CAPITAL	REVALUATIONS RESERVE	RETAINED EARNINGS	TOTAL
	Kshs	Kshs	Kshs	Kshs
<b>Balance as at 1st July 2021</b>	32,000,000	2,810,642,777.00	(241,697,571)	2,600,945,206
Net Profit/(Loss) for the year			96,359,757	96,359,757
<b>Balance as at 30th June 2022</b>	<b>32,000,000</b>	<b>2,810,642,777</b>	<b>(145,337,814)</b>	<b>2,697,304,963</b>
<b>Balance as at 1st July 2022</b>	<b>32,000,000</b>	<b>2,810,642,777</b>	<b>(145,337,814)</b>	<b>2,697,304,963</b>
Net Profit/(Loss) for the year			(23,512,297)	(23,512,297)
Revaluation Surplus		811,142,877		811,142,877
<b>Balance as at 30th June 2023</b>	<b>32,000,000</b>	<b>3,621,785,654</b>	<b>(168,850,111)</b>	<b>3,484,935,543</b>

## XVI. STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2023

	Note	<u>2022/2023</u>	<u>2021/2022</u>
		Kshs	Kshs
<b>CASHFLOWS FROM OPERATING ACTIVITIES</b>			
<b>Net cash generated from/(used in) operating activities</b>	40(a)	<b>(93,760,150)</b>	<b>129,788,624</b>
<b>CASHFLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of Computers & Office Equipment	20	-615,815	-6,220,096
Acquisition of Motor Vehicles	20	-51,498,800	
Buildings refurbishment Work in Progress	20	-10,158,560	
Purchase of Computers	20	-12,066,821	
Purchase of Furniture & Fittings	20	-14,082,085	
Increase/(Decrease) in Rent lease deposits	30	1,442,710	812,764
<b>Net cash generated from/(used for) investing activities</b>		<b>(86,979,371)</b>	<b>-5,407,332</b>
<b>Cashflows from Financing Activities</b>			
Recurrent grant Received	18	159,519,920	-
Development Grant Received	18	-	37,500,000
Increase in Non-Current Lease Liabilities	31	(353,237)	-4,208,121
Payments in relation to grant income	34	(119,713,227)	-88,158,776
Proceeds from Borrowings (Finance Leases)	35	1,778,613,723	11,559,139
KCB Overdraft	35	1,096,276,411	
Repayment of Borrowings (Finance Leases)	35	-	-13,748,684
<b>Net cash generated from/(used in) financing activities</b>		<b>2,914,343,590</b>	<b>-48,640,200</b>
<b>Increase/(Decrease) In Cash &amp; Cash Equivalents</b>		<b>2,733,604,070</b>	<b>75,741,092</b>
<b>Cash &amp; Cash Equivalents at the beginning of the Year</b>	26	<b>284,955,133</b>	<b>209,214,041</b>
<b>Cash &amp; Cash Equivalents at the end of the Year</b>	26	<b><u>3,018,559,203</u></b>	<b><u>284,955,133</u></b>

## VII. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30TH JUNE 2023

	Original budget	Adjustments	Final budget	Actual on Comparable basis	Performance Difference	Performance Difference	Note
	2022-2023	2022-2023	2022-2023	2022-2023	2022-2023	2022-2023	
	Kshs	Kshs	Kshs	Kshs	Kshs	%	
<b>Revenue</b>							
Sales	2,638,573,088	6,097,677,000	8,736,250,088	19,114,373,564	10,378,123,476	119%	1
Cost of Sales	(2,364,029,253)	(5,879,422,205)	(8,243,451,458)	(18,995,433,075)	(10,711,981,617)	130%	
Net Sales	274,543,835	218,254,795	492,798,630	158,940,489	(333,858,141)	-68%	2
Rental Income	93,544,000	(2,844,000)	90,700,000	93,525,217	2,825,217	3%	3
Transport Income	4,800,000	-	4,800,000	4,023,793	(776,207)	-16%	
Warehousing/commission Income	8,467,000	(8,467,000)	-	231,199,360	231,199,360	100%	4
Parking Income	600,000	(200,000)	400,000	372,414	(27,586)	-7%	
<b>Total Income</b>	<b>381,954,835</b>	<b>206,743,795</b>	<b>588,698,630</b>	<b>488,061,273</b>	<b>(100,637,357)</b>	<b>-17%</b>	
<b>Expenses</b>							
Personnel Emoluments	114,602,000	16,600,000	131,202,000	109,029,083	22,172,917	17%	5
Administration Costs	124,053,000	66,726,930	190,779,930	224,448,414	(33,668,484)	-18%	6
Board Expenses	15,913,000	5,087,000	21,000,000	11,263,651	9,736,349	46%	7
Selling & Distribution Costs	52,190,000	94,910,000	147,100,000	72,726,435	74,373,565	51%	8
Depreciation	35,020,000	6,000,000	41,020,000	32,427,120	8,592,880	21%	
Finance Cost	2,550,000	11,050,000	13,600,000	71,755,566	(58,155,566)	-428%	9
Taxation	11,288,000	1,911,000	13,199,000	(10,076,699)	23,275,699	176%	10
<b>Total Expenditure</b>	<b>355,616,000</b>	<b>202,284,929</b>	<b>557,900,930</b>	<b>511,573,570</b>	<b>46,327,360</b>	<b>8%</b>	
<b>Surplus for the Period</b>	<b>26,338,835</b>	<b>4,458,866</b>	<b>30,797,700</b>	<b>(23,512,297)</b>	<b>(54,309,997)</b>		
Government Grants - Recurrent	90,000,000	-	90,000,000	107,019,920	17,019,920	17%	7
Government Grants - Development	90,000,000	(37,500,000)	52,500,000	52,500,000	-	0%	7
Revaluation gain				811,142,877	811,142,877	100%	
<b>Total Comprehensive Income</b>	<b>234,051,356</b>	<b>(33,041,134)</b>	<b>173,297,700</b>	<b>947,150,500</b>	<b>773,852,800</b>		

### **BUDGET VS ACTUAL PERFORMANCE NOTES**

**1. Sales:** Budgeted sales were kshs 2,638,573,088 but was adjusted to Kshs 8,736,250,088. The significant variance in sales revenues is attributable to the fertilizer subsidy program in which the Corporation sold Kshs 15.5 billion. The actual sales amounted to kshs 19.1 Billion representing a 123% achievement against the adjusted budget.

**2. Net Sales:** This represents the gross profit earned from sale of products. The Corporation had budgeted for Net sales of Kshs 274 million but later adjusted to Kshs 492 million. The actual achievement was Kshs 158 million. This was a result of the fertilizer subsidy program in which KNTC was designated as the anchor agency.

3. Budgeted **Rental Income** was adjusted downwards by 2,844,000 due to non renewal of expired lease contracts by some tenants in order to accommodate the importation of food commodities business.

4. **Commission Income;** The corporation earned a commission from the fertilizer subsidy program to cover its administrative expenditures. This was previously not budgeted for.

5. **Personnel Emoluments** were adjusted upwards by Kshs 16.6 million to cater for the expected salary adjustments. The budget was underspent by 17% by 30th June when the anticipated salaries review recommendations by SRC was not received in the year.

6. **Administration Costs** were adjusted upwards by 66.7 million to cater for the increased expenditure on fertilizer subsidy program. As at 30th June, the budgeted amounts were underspent by 18%.

7. **Board Expenses** were adjusted upwards by Kshs 5.08 million to cater for the planned trainings and induction for the new board of directors. This was however under spent by 46% as the new board started operation in June instead of March.

8. **Selling & Distribution Costs** had been budgeted at Kshs 52.19 million. This was adjusted to 94.91 million as the Corporation anticipated increase in sales activity due to the export business through setting up of the export trading centres, importation of essential commodities and fertilizer subsidy programmes. As at 30th June, the corporation had spent only 72.72 million or 51% because the ETC business was yet to take off.

9. **Finance Costs** had been budgeted at Kshs 2.55 million but was later adjusted to Kshs 13.6 million. As at 30th June, the corporation had spent 71.7 million because of the short term loans necessitated by the importation of essential commodities business.

10. Taxation had been budgeted at Kshs 11.288 million but was later adjusted to Kshs 13.19 million as the Corporation anticipated higher profit from operations. As at 30th June, the taxation charge was (Kshs 10.07 million) as a result of non achievement of our profit targets.

## **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 is represented by the Cabinet Secretary for the Ministry of Investments, Trade and Industry who 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; Rice, Fertilizer, Cement, Lime, Magadi Salts, Building Materials, Human Salt, Farm inputs and products, 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 2023

Title	Description	Effective Date
IFRS 17 Insurance Contracts (issued in May 2017)	<p>The new standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts.</p> <p><i>The Corporation does not issue insurance contracts therefore this amendment will have no impact on these financial statements.</i></p>	On or after 1 <sup>st</sup> January 2023.
IAS 8- Accounting Policies, Errors, and Estimates	<p>The amendments, applicable to annual periods beginning on or after 1st January 2023, introduce a definition of 'accounting estimates' and include other amendments to IAS 8 to help entities distinguish changes in accounting policies from changes in accounting estimates.</p> <p><i>The amendment had no impact on these financial statements</i></p>	On or after January 1, 2023.
Amendments to IAS 1 titled Disclosure of Accounting Policies (issued in February 2021)	<p>The amendments, applicable to annual periods beginning on or after 1st January 2023, require entities to disclose their <b>material</b> accounting policy information rather than their <b>significant</b> accounting policies.</p> <p><i>The Corporation has implemented the requirements of IAS 1 by disclosing its material accounting policies instead of significant accounting policies.</i></p>	On or after January 1, 2023.
Amendments to IAS 12 titled Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (issued in May 2021)	<p>The amendments, applicable to annual periods beginning on or after 1st January 2023, narrowed the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 (recognition exemption) so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.</p>	On or after January 1, 2023.

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

ii) **New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2023**

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

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

iii) **Early adoption of standards**

The Corporation did not early – adopt any new or amended standards in year 2023.

#### 4. SUMMARY OF 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) Right of Use Asset**

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the entity incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the entity expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The right-of-use assets are presented as a separate line in the statement of financial position.

## 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.

**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 2022-2023 was approved by The National Assembly in April 2022. 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 2022-2023 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, 2023.

## 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)

<b>6 SALES</b>	<b>2022/2023</b>	<b>2021/2022</b>
<b>Product Category</b>		
Fertilizer	200,888,429	234,212,140
Rice	1,762,895,016	2,256,681,094
Sugar	96,532,839	100,232,449
Magadi Salts	98,826,716	50,279,867
Cement	14,521,939	25,648,525
Hardware & Special Orders	62,596,747	31,790,972
Farm Inputs & Implements	86,152,177	11,364,890
Others	1,245,930	219,364
Pulses	931,894,500	
Subsidy Fertilizer	15,534,767,319	
Commodities Rice	225,911,000	
Commodities Cooking Oil	98,140,950	
<b>TOTAL</b>	<b>19,114,373,564</b>	<b>2,710,429,301</b>
<b>7 COST OF SALES</b>		
<b>Product Category</b>	<b>2022/2023</b>	<b>2021/2022</b>
Fertilizer	174,566,668	209,499,779
Rice	1,640,247,288	2,003,474,309
Sugar	80,252,505	86,956,760
Magadi Salts	83,693,177	43,418,943
Cement	13,034,327	21,750,432
Hardware & Special Orders	49,119,774	23,754,162
Farm Inputs & Implements	74,369,694	9,793,539
Others	997,670	169,653
Pulses	885,753,100	
Subsidy Fertilizer	15,534,767,319	
Commodities Rice	293,449,293	
Commodities Cooking Oil	125,182,261	
<b>TOTAL</b>	<b>18,955,433,075</b>	<b>2,398,817,579</b>
<b>8 COMMISSION INCOME</b>	<b>2022/2023</b>	<b>2021/2022</b>
Commission Income	231,199,360	-
	<b>231,199,360</b>	-
<b>9 OTHER INCOME</b>		
Rent Income	93,525,217	91,508,356
Warehousing Income	-	-
Loss/ Profits due to Foreign	-	-
Transport Income	4,023,793	1,445,172
Parking Income	372,414	372,414
Decrease in Provision for leave	-	884,988
	<b>97,921,424</b>	<b>94,210,929</b>

## 10 ADMINISTRATION COSTS

	<u>2022/2023</u>	<u>2021/2022</u>
Staff Travel & Subsistence Costs	48,104,035	17,853,136
Training Expenses	6,673,587	7,720,650
Staff Welfare Costs	32,288,041	20,095,678
Communication Services	7,751,354	4,207,571
Printing, Advertising & Information Supplies	4,833,182	3,222,602
Rent, Security & Parking Fees	28,232,798	17,457,727
Legal & Professional Services	10,105,652	4,588,854
Office & General Supplies	5,488,659	4,460,754
Motor Vehicle Expenses	13,311,379	10,532,468
Commodity Insurance	27,843,093	
Loss due to foreign exchange rates	18,934,689	
Repairs & Maintenance of Assets	3,409,802	1,450,835
Bank Charges & Interest	17,172,145	1,064,649
	<u><b>224,148,414</b></u>	<u><b>92,654,925</b></u>

## 11 PERSONNEL EMOLUMENTS

	<u>2022/2023</u>	<u>2021/2022</u>
Salaries & Wages	97,149,423	65,897,009
Pension & Gratuity	8,645,762	7,988,154
Provision for Staff Leave	3,233,898	-
	<u><b>109,029,083</b></u>	<u><b>73,885,163</b></u>

### The number of Employees at the end of the year was;

	<u>2022/2023</u>	<u>2021/2022</u>
Permanent Employees - Management	78	49
Permanent Employees - Unionisable		
Temporary & Contract Employees	7	11
<b>Total</b>	<b>85</b>	<b>60</b>

## 12 DIRECTORS' EMOLUMENTS

	<u>2022/2023</u>	<u>2021/2022</u>
Board Travel & Subsistence Costs	5,719,522	4,479,746
Board Sitting Allowance	4,500,000	5,160,000
Board Training fees	-	-
Chairman's Honoraria & Telephone	783,000	428,000
Board Medical Cover	144,129	660,081
Board General Expenses	117,000	847,723
	<u><b>11,263,651</b></u>	<u><b>11,575,550</b></u>

## 13 SELLING & DISTRIBUTION COSTS

	<u>2022/2023</u>	<u>2021/2022</u>
Marketing & Promotional expenses	11,898,266	6,071,816
Repairs & Maintenance of trucks	4,337,775	3,140,345
Telephone for Sales Staff	142,500	110,689
Travelling & Subsistence for Sales	32,142,524	14,994,193
Fuel for Trucks	-	3,716,147
Provision for Bad Debts	23,870,347	27,283,872
Provision for Stock Obsolescence	65,469	34,668
Tendering Costs	1,000	4,000
Fumigation of Warehouses	268,554	330,612
<b>Total Selling &amp; Distribution Expenses</b>	<u><b>72,726,435</b></u>	<u><b>55,686,341</b></u>

## 14 DEPRECIATION

	<u>2022/2023</u>	<u>2021/2022</u>
Depreciation of Property plant & Equipment	32,427,121	24,713,044
Amortization of Intangible Assets	5,361,924	5,401,924
Depreciation of Right-of-Use Assets	2,964,300	2,127,625
<b>Total Depreciation</b>	<u><b>40,753,345</b></u>	<u><b>32,242,593</b></u>

## 15 OTHER EXPENSES

	<u>2022/2023</u>	<u>2021/2022</u>
Corporate Social Responsibility	300,000	82,508
Donations	-	110,000
Interest & Penalties	-	-
	<u><b>300,000</b></u>	<u><b>192,508</b></u>

## 16 FINANCE COSTS

	<u>2022/2023</u>	<u>2021/2022</u>
Interest on Loans & Finance leases	71,725,108	1,906,916
Interest on Lease Liabilities	30,458	21,861
<b>Total Finance Costs</b>	<u><b>71,755,566</b></u>	<u><b>1,928,777</b></u>

**17 TAXATION**  
**INCOME TAX EXPENSE/(CREDIT)**

	<b>2022/2023</b>	<b>2021/2022</b>
Income tax on profits calculated at domestic rate - 30%	(10,076,699)	41,297,039
Current Tax: Prior year under/(over) provision		
Current year deferred tax charge (note 32)		
Under/(over) provision of deferred tax in prior years		
<b>Income Tax Charge</b>	<b>(10,076,699)</b>	<b>41,297,039</b>

**18. GRANTS FROM NATIONAL GOVERNMENT**

Development grant received from the National Government for the purpose of refurbishing the properties.

			<b>FY 2022-2023</b>	<b>FY 2021-2022</b>
<b>DATE</b>	<b>RECEIPT NO</b>	<b>DEPARTMENT</b>	<b>AMOUNT</b>	
28/09/2022	KNTC-RCPT_46747	STATE DEPARTMENT OF CO-OP	5,625,000.00	37,500,000
20/12/2022	KNTC-RCPT_45847	STATE DEPARTMENT OF CO-OP	5,625,000.00	
17/11/2022	KNTC-RCPT_46745	STATE DEPARTMENT OF CO-OP	16,875,000.00	
21/12/2022	KNTC-RCPT_45846	STATE DEPARTMENT OF CO-OP	16,875,000.00	
13/03/2023	KNTC-RCPT_51115	STATE DEPARTMENT OF CO-OP	33,000,000.00	
13/06/2023	KNTC-RCPT_51139	STATE DEPARTMENT FOR TRADE	19,519,920.00	
14/06/2023	KNTC-RCPT_51145	STATE DEPARTMENT FOR TRADE	32,000,000.00	
08/07/2022	KNTC-RCPT_51244	STATE DEPARTMENT OF CO-OP	30,000,000.00	
		<b>TOTAL GRANT</b>	<b>159,519,920.00</b>	<b>37,500,000</b>

**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 after tax of Ksh. 61 million during the financial year.

## 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
<b>COST OR VALUATION</b>								
<b>As at 1st July 2021</b>	<b>1,699,210,000</b>	<b>1,000,612,200</b>	<b>(4,644,448)</b>	<b>6,364,020</b>	<b>10,936,528</b>	<b>4,052,010</b>	<b>34,400,000</b>	<b>2,734,965,022</b>
Additions	-	3,725,610	4,644,448	78,510	4,207,983	1,933,603	-	<b>15,965,286</b>
Loita Street & Nakuru Plots)	63,390,540	-		-	-	-	-	<b>63,390,540</b>
Development Grant								-
Less Provision for Loss (Loita Street	(63,390,540)							<b>(63,390,540)</b>
<b>As at 30th June 2022</b>	<b>1,699,210,000</b>	<b>1,004,337,810</b>	<b>(0)</b>	<b>6,442,530</b>	<b>15,144,511</b>	<b>5,985,613</b>	<b>34,400,000</b>	<b>2,765,520,462</b>
<b>DEPRECIATION</b>								
<b>As at 1st July 2021</b>	-	<b>120,073,464</b>		<b>2,890,953</b>	<b>5,130,410</b>	<b>3,057,334</b>	<b>34,400,000</b>	<b>165,552,161</b>
Charge for the year		20,012,244		861,123	3,226,731	612,947	-	24,713,044
<b>As at 30th June 2022</b>	-	<b>140,085,708</b>	-	<b>3,752,076</b>	<b>8,357,141</b>	<b>3,670,281</b>	<b>34,400,000</b>	<b>190,265,205</b>
<b>NET BOOK VALUE</b>								
As at 30th June 2022	<b>1,699,210,000</b>	<b>864,252,102</b>	<b>(0)</b>	<b>2,690,454</b>	<b>6,787,370</b>	<b>2,315,332</b>	-	<b>2,575,255,257</b>
<b>FY 2021/2022</b>								
<b>COST OR VALUATION</b>								
<b>As at 1st July 2022</b>	<b>1,699,210,000</b>	<b>1,004,337,810</b>	-	<b>6,364,020</b>	<b>10,936,528</b>	<b>4,052,010</b>	<b>34,400,000</b>	<b>2,759,300,367</b>
Additions	-		10,158,560.00	615,815	12,066,821	14,082,085	51,498,800	<b>88,422,081</b>
Revaluation Surplus/ (Loss)	819,327,460	(14,812,200)		5,025,940	11,973,037	5,578,640	(15,950,000)	<b>811,142,877</b>
Loita Street & Nakuru Plots)	520,000,000	-					-	<b>520,000,000</b>
Development Grant								-
Less Provision for Loss (Loita Street & Nakuru Plots)	(520,000,000)							<b>(520,000,000)</b>
<b>As at 30th June 2023</b>	<b>2,518,537,460</b>	<b>989,525,610</b>	<b>10,158,560</b>	<b>12,005,775</b>	<b>34,976,386</b>	<b>23,712,735</b>	<b>69,948,800</b>	<b>3,474,820,215</b>
<b>DEPRECIATION</b>								
<b>As at 1st July 2022</b>	-	<b>140,085,708</b>		<b>3,752,076</b>	<b>8,357,141</b>	<b>3,057,334</b>	<b>34,400,000</b>	<b>189,652,259</b>
Revaluation		(140,085,708)		(3,752,076)	(8,357,141)	(3,057,334)	(34,400,000)	<b>(189,652,259)</b>
Charge for the year		19,716,000		980,963	3,226,731	612,947	7,890,480	<b>32,427,120</b>
<b>As at 30th June 2023</b>	-	<b>19,716,000</b>	-	<b>980,963</b>	<b>3,226,731</b>	<b>612,947</b>	<b>7,890,480</b>	<b>32,427,120</b>
<b>NET BOOK VALUE</b>								
<b>As at 30th June 2023</b>	<b>2,518,537,460</b>	<b>969,809,610</b>	<b>10,158,560</b>	<b>11,024,812</b>	<b>31,749,655</b>	<b>23,099,788</b>	<b>62,058,320</b>	<b>3,442,393,095</b>

- a) Loita Street plot LR.209/103430 valued at ksh 485 million in the accounts was irregularly transferred to commissioner of lands.  
b) Part of Nakuru plot LR.6/158 valued at Kshs 35 millionm was irregularly acquired by a private developer and a godown constructed on it.  
c) Kisumu plot LR. 3/52 is charged against trade guarantees with KDC Ltd.  
d) The Corpration received a grant of Kshs 22.5 million for the refurbishment of the Karatina Warehouse.

## 21 RIGHT-OF-USE ASSETS

<b>Buildings</b>	<b>2022/2023</b>	<b>2021/2022</b>
Cost b/f	17,946,143	13,198,943
Additions	0	10,327,200
Written off	0	-5,580,000
<b>Total c/f</b>	<b>17,946,143</b>	<b>17,946,143</b>
<b>Accumulated Depreciation</b>		
Balance b/f	2,042,500	642,500
Charge for the Year	2,964,300	2,120,000
Disposal/ Written Off	0	-720,000
<b>Balance</b>	<b>5,006,800</b>	<b>2,042,500</b>
<b>Carrying Amount</b>	<b>12,939,343</b>	<b>15,903,643</b>

## 22(a) INTANGIBLE ASSETS

	<b>2022/2023</b>	<b>2021/2022</b>
Opening Balance	16,966,172	16,726,172
Addition		
Accumulated Amortization	(10,843,848)	(5,401,924)
Written down Value	<b>6,122,324</b>	<b>11,324,248</b>

## 23 INVENTORIES

	<b>2022/2023</b>	<b>2021/2022</b>
Fertilizer	7,987,486	46,797,038
Rice	92,033,513	31,079,384
Sugar	591,229	-
Magadi Salts	6,345,592	4,702,842
Cement	903,340	1,514,081
Hardware & Special Orders	32,180,990	3,148,505
Farm Inputs & Implements	584,180	16,311,075
Others	108,887	
Pulses	133,138,047	
Subsidy Fertilizer	3,129,405,619	
Commodities Rice	3,453,892,597	
Commodities Cooking Oil	1,821,212,940	
Provision for stocks Obsolescence	(978,800)	(584,376)
	<b>8,677,405,618</b>	<b>102,968,549</b>

## 24 TRADE & OTHER RECEIVABLES

	<u>2022/2023</u>	<u>2020/2021</u>
<b>(a) TRADE RECEIVABLES</b>		
Government Debtors	62,056,777	92,469,923
Rice Debtors	336,870,718	482,134,134
Private Debtors	25,079,526	26,076,146
<b>Total Trade Receivables</b>	<u><b>424,007,021</b></u>	<u><b>600,680,203</b></u>
<b>(b) OTHER RECEIVABLES</b>		
Rent Receivable	139,120,347	126,313,370
Commission receivable	73,281,698	-
Subsidy Receivable	1,174,926,725	-
Staff Purchase Scheme	-	48,300
Receivable bank Guarantees	1,000,000	1,000,000
A/c Receivable D.I.T.	603,182	603,182
Salary advance	3,711	27,576
Staff Imprests	3,478,015	834,900
Claims Receivable	9,436,978	9,436,978
Bounced Cheques receivable	1,672,192	1,672,192
Prepaid Expenses	-	-
Deposit for Motor Vehicles	-	18,230,000
Deposits	874,540	874,540
Prepaid Stock	-	762,934
VAT & Withholding VAT Recoverable	142,128,975	867,667
<b>Total Other Receivables</b>	<u><b>1,546,526,362</b></u>	<u><b>160,671,639</b></u>
<b>Total Trade &amp; Other Receivables</b>	<u><b>1,970,533,382</b></u>	<u><b>761,351,842</b></u>
Less Provision for Doubtful debts	(93,285,954)	(69,415,607)
<b>Net Trade &amp; Other Receivables</b>	<u><u><b>1,877,247,428</b></u></u>	<u><u><b>691,936,235</b></u></u>

## 25 TAX PAYABLE /(RECOVERABLE)

	<u>2022/2023</u>	<u>2021/2022</u>
At the beginning of the year	29,856,499	(4,688,721)
Income tax Charge/(Credit) for the year- note 17	(10,076,699)	41,297,039
Under/(over) provision in prior years	81,978,664	
Tax Paid during the year	((64,111,656))	(6,751,819)
<b>At the end of the year</b>	<u><u><b>(37,646,808)</b></u></u>	<u><u><b>29,856,499</b></u></u>

**26 BANK AND CASH BALANCES**

	<u>2022/2023</u>	<u>2021/2022</u>
Cash at Bank	3,018,313,691	283,185,381
Cash in Hand	<u>245,512</u>	<u>1,769,752</u>
	<u><b>3,018,559,203</b></u>	<u><b>284,955,133</b></u>

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

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

Financial institution	Account number	2022/2023	2021/2022
		KShs	KShs
<b>a) Current account</b>			
ABSA Bank	0701788990	1,944,642	27,186,105
National Bank	01003002924900	265,505	459,011
Co-operative Bank	01136028861700	19,477,596	3,318,815
Co-operative Bank	01136028861701	144,294,045	231,549,950
ABSA Bank	2046098318	17,538,798	20,671,500
KCB - Main Current Account	1305267672	4,960,583	0
KCB - Dollar Account	1305267737		0
KCB-1310600880	1310600880	30	
KCB - Fertilizer Escrow	1310600686	1,088,225,845	0
KCB - Rice Escrow	1310600791	226,007,580	0
KCB - Cooking Oil Escrow	0310600910	98,455,917	0
KCB - Lamar Escrow	1312069368	1,417,143,149	0
<b>Sub- total</b>		<b>3,018,313,691</b>	<b>283,185,381</b>
<b>b) Others</b>			
Head Office		2,180	
Rice Depot		8,507	
Machakos		2,436	
Nakuru		26,590	
Kisumu		27,595	
Eldoret		97,370	
Kitale		20,269	
Nairobi 2		19,529	
Meru		2,351	
MDs Office		4,045	
Mombasa		34,641	
<b>Total Petty Cash Balances</b>		<b>245,512</b>	<b>324,780</b>
Undeposited Funds		-	-
M pesa		-	1,444,972
<b>Sub- total</b>		<b>245,512</b>	<b>1,769,752</b>
<b>Grand total</b>		<b>3,018,559,203</b>	<b>284,955,133</b>

## 27 SHARE CAPITAL

	<u>2022/2023</u>	<u>2021/2022</u>
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.

	<u>2022/2023</u>	<u>2020/2021</u>
Balance as at 1st July 2022	2,810,642,777	2,810,642,777
Revaluation During the year	811,142,877	
Balance as at 30th June 2023	<b>3,621,785,654</b>	<b>2,810,642,777</b>

## 29 RETAINED EARNINGS

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

## 30 RENT LEASE DEPOSITS

Rent lease deposits b/f	(14,435,919)	(13,623,155)
Deposits by tenants	(1,442,710)	(812,764)
Refunds paid to Tenants		
Rent lease deposits c/f	<u><b>(15,878,629)</b></u>	<u><b>(14,435,919)</b></u>

## 31 LEASE LIABILITY

	<u>2022-2023</u>	<u>2021-2022</u>
	Kshs	
<b>Maturity Analysis</b>		
2025/26	12,931,718	5,707,695
2027/28	-	10,197,200
	<b>12,931,718</b>	<b>15,904,895</b>
Less: unearned interest	(132,873)	(172,209)
	<b>12,798,844</b>	<b>15,732,686</b>
<b>Analysed as:</b>		
<b>Non-Current</b>	<b>9,781,457</b>	<b>14,342,815</b>
<b>Current</b>	<b>3,017,387</b>	<b>1,389,871</b>

### 32 DEFERRED TAX LIABILITY

	<u>2022/2023</u>	<u>2021/2022</u>
	<b>Kshs</b>	<b>Kshs</b>
Balance at the beginning of the year	116,851,471	
Accelerated Capital Allowance	5,183,775	4,224,137
Tax losses carried forward	9,936,616	43,601,344
Provisions	-	69,025,990
<b>Net deferred tax liability</b>	<b><u>131,971,862</u></b>	<b><u>116,851,471</u></b>

### 33 RICE FUND

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

	<u>2022/2023</u>	<u>2021/2022</u>
<b>Balance b/f</b>	660,000,000	660,000,000
Grants Received	-	
Drawings from the fund	-	
<b>Balance c/f</b>	<b><u>660,000,000</u></b>	<b><u>660,000,000</u></b>

### 34 DEFERRED GRANT INCOME

Deferred grant income relates to capital contributions received from the National Treasury for refurbishment of warehouses.

	<u>2022/2023</u>	<u>2021/2022</u>
Opening Balance	30,968,224	81,627,000
Grants received (Note 18)	159,519,920	37,500,000
Payments	(119,713,227)	(88,158,776)
<b>Balance as at 30th June 2023</b>	<b><u>70,774,917</u></b>	<b><u>30,968,224</u></b>

**35 BORROWINGS**

<b>Short Term Loans</b>	<b><u>2022/2023</u></b>	<b><u>2021/2022</u></b>
Balance at the beginning of the year	-	1,686,722
Interest Accrued during the year	71,725,108	502,823
Additional Borrowing during the year	1,778,613,723	11,559,139
Repayments during the year	-	<u>(13,748,684)</u>
KCB Overdraft Dollar Account	1,096,276,411	
Finance Lease balance at end of the year	<b><u>2,946,615,242</u></b>	-
Less Amounts Due within 1 Year (Current)	1,822,562,967	
Amounts Due after 1 Year (Non-Current)	27,775,864	
KCB Overdraft Dollar Account	1,096,276,411	
Total	<b><u>2,946,615,242</u></b>	

The analyses of the Finance leases is as follows:

Finance Lease from KCB	33,268,800
Post Import Financing from KCB	1,817,070,031

**36 TRADE & OTHER PAYABLES**

	<b><u>2022/2023</u></b>	<b><u>2021/2022</u></b>
Trade Payables	9,613,646,195	60,242,103
Accrued Charges	41,994,207	41,387,328
Income Tax Payable	37,646,808	29,856,499
Accrued Audit Fees	600,000	1,350,000
Claims Payable	129,288	129,288
Accrued Leave Days	7,846,141	4,612,242
Salary Withholdings	1,966,693	1,180,495
Accrued Directors Fees	100,000	1,180,000
Accrued Gratuity/Pension	5,679,404	5,402,945
Statutory Creditors	2,083,236	1,708,901
	<b><u>9,711,691,973</u></b>	<b><u>147,049,801</u></b>

### 37 PROVISION FOR STAFF LEAVE PAY

	<u>2022/2023</u>	<u>2021/2022</u>
Provision for leave pay b/f	4,612,243	5,497,230
Additional provision for the year	6,574,623	4,786,797
Leave paid out or utilised during the year	<u>(3,340,725)</u>	<u>(5,671,784)</u>
<b>Provision for leave pay c/f</b>	<b><u>7,846,141</u></b>	<b><u>4,612,242</u></b>

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

### 38 PROVISION FOR BAD DEBTS

	<u>2022/2023</u>	<u>2021/2022</u>
Provision for bad debts b/f	69,415,607	42,131,735
Additional provision at end of year	<u>23,870,347</u>	<u>27,283,872</u>
Provision for bad debts c/f	<b><u>93,285,955</u></b>	<b><u>69,415,607</u></b>

### 39 PROVISION FOR INVENTORIES

	<u>2022/2023</u>	<u>2021/2022</u>
Provision for Inventories b/f	584,375	549,707
Additional provision at end of year	<u>394,425</u>	<u>34,668</u>
Provision for inventories c/f	<b><u>978,800</u></b>	<b><u>584,375</u></b>

### 39(a) PROVISION FOR Exchange Losses

	<u>2022/2023</u>	<u>2021/2022</u>
Provision for exchange loss	18,934,689	-
Additional provision at end of year	<u>-</u>	<u>-</u>
Provision for inventories c/f	<b><u>18,934,689</u></b>	<b><u>-</u></b>

**40 NOTES TO THE STATEMENT OF CASHFLOWS****40(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations**

		<u>2022/2023</u>	<u>2021/2022</u>
<b>Net Profit/(Loss) for the year</b>		(23,512,297)	96,359,757
<b>Adjustment for;</b>			
Provision for Staff Leave pay	11	3,233,898	-884,988
Gratuity	11		-
Depreciation of Property Plant & Equipment	14	32,427,121	24,713,044
Interest & Penalties	15	64,111,656	
Interest Expense	16	71,725,108	1,906,916
Interest on Lease Liabilities	16	132,873	
Income Tax Expense /(Credit)	17(a)	(10,076,699)	41,297,039
Amortization of ROU (Right of Use) Assets	21	2,964,300	2,127,625
Amortization of Intangible Assets	22	5,361,924	5,401,924
Provision for bad & Doubtful debts	38	23,870,347	27,283,872
Provision for Stock Obsolescence	39	394,425	34,668
Provision for exchange losses	39(a)	18,934,689	
<b>Deficit/Surplus before working capital changes</b>		<b>189,567,345</b>	<b>198,261,718</b>
Decrease/(Increase) in Trade & Other Receivables		(1,185,311,193)	-280,686,687
Decrease/(Increase) in Inventories		(8,574,437,070)	294,958,327
Increase/(Decrease) in Trade & Other Payables		9,564,642,172	-72,481,950
Increase/(Decrease) in Current Lease Liabilities		(5,311,443)	-904,185
<b>Cash Generated from Operations</b>		<b>(10,850,190)</b>	<b>139,147,224</b>
Income Tax Paid	25	(64,111,656)	-190,695
Provision for Leave Paid/Utilized	37	(3,340,725)	-5,671,784
Interest Paid	40(b)	(71,725,108)	-3,496,121
Taxes Paid	40(c)	56,267,529	-
<b>Net cash generated from/(used in) operating activities</b>		<b>(93,760,150)</b>	<b>129,788,624</b>

**40(b) Analysis of Interest Paid**

		<u>2022/2023</u>	<u>2021/2022</u>
Arrears of interest b/f		-	1,589,205
Interest charge for the year		71,725,108	1,906,916
Interest Paid for the Year		(71,725,108)	(3,496,121)
Arrears of interest c/f		-	-

#### 40(c) Analysis of Taxation Paid

	<u>2022/2023</u>
Customs Taxes Payable	(56,267,529)
Tax Paid for the Year	56,267,529
Tax Payable c/f	<u>-</u>

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

<b>41 TRANSACTIONS WITH RELATED PARTIES</b>	<u>2022/2023</u>	<u>2021/2022</u>
<b>Sales to Related Parties</b>		
Sales of goods to Employees	-	-
Sales of goods to Government MDAs	-	2,388,640,410
Lease of Buildings to Government MDAs		
<b>Total</b>	<b>-</b>	<b>2,388,640,410</b>
<b>Grants from the Government</b>		
Grants from the National Government	84,515,920	37,500,000
<b>Borrowings from Govt Institutions</b>		
ICDC Finance Lease	-	-
<b>Expenses incurred on behalf of Related Parties</b>		
Payments to Defined contribution pension scheme	-	7,988,154
Payments for staff welfare	-	20,095,678
<b>Total</b>	<b>-</b>	<b>28,083,832</b>
<b>Key management compensation</b>		
Directors' Remuneration	11,263,651	11,263,651
Compensation to Key Management		19,216,886
<b>Total</b>	<b>11,263,651</b>	<b>30,792,436</b>

#### 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
<b>At 30 June 2022</b>				
Receivables from non- exchange transactions	761,351,842	582,906,085	109,030,149	69,415,607
Cash & Cash Equivalents	284,955,133	284,955,133		
<b>Total</b>	<b>1,046,306,974</b>	<b>867,861,218</b>	109,030,149	<b>69,415,607</b>
<b>At 30 June 2023</b>				
Receivables from non- exchange transactions	1,967,171,278	1,967,171,278	342,735,580	69,415,607
Cash & Cash Equivalents	3,018,559,203	3,018,559,203		

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
<b>At 30 June 2022</b>				
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
<b>Total</b>	<b>163,380,280</b>	<b>5,065,317</b>	<b>48,047,815</b>	<b>219,531,751</b>
<b>At 30 June 2023</b>				
Trade payables	9,711,691,973	-	-	9,711,691,973
Current portion of borrowings	-	-	-	-
Employee benefit obligation	10,015,186	-	-	10,015,186

### (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 Risk Management Committee.

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.

#### a) Foreign currency risk

The Corporation has transactional currency exposures. Such exposure arises through purchases of goods and services that

#### Notes To The Financial Statements (Continued)

are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid when they fall due and conversion at the time of payment is done using the prevailing exchange rate.

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

Description		Other currencies	Total
	Kshs	Kshs	Kshs
<b>At 30 June 2023</b>			
<b>Financial assets</b>			
Cash at Bank	3,018,559,203		
Debtors	1,877,247,428		
<b>Financial liabilities</b>			
Trade and other payables	9,711,691,973		
<b>Net foreign currency asset/(liability)</b>			

The Corporation manages foreign exchange risk from future commercial transactions and recognised assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.

**b) Foreign currency sensitivity analysis**

The following table demonstrates the effect on the corporation's statement of comprehensive income on applying the sensitivity for a reasonable possible change in the exchange rate of the main transaction currency the US Dollar, with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant.

Details	Change in currency rate	Effect on Profit before tax	Effect on equity
	Kshs	Kshs	Kshs
<b>2023</b>			
USD	10%	xxx	xxx
<b>2024</b>			
USD	10%	xxx	xxx

**c) Interest rate risk**

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

**Management of interest rate risk**

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

**iv). Capital Risk Management**

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

	<b>2022/2023</b>	<b>2021/2022</b>
	<b>Kshs</b>	<b>Kshs</b>
Revaluation reserve	3,621,785,654	2,810,642,777
Retained earnings	(168,850,111)	(145,337,814)
Share Capital	32,000,000	32,000,000
<b>Total funds</b>	<b>3,484,935,543</b>	<b>2,697,304,963</b>
Total borrowings	2,946,615,242	-
Less: cash and bank balances	(3,018,559,203)	284,955,133
Net debt/(excess cash and cash equivalents)	(3,018,559,203)	(284,955,133)
<b>Gearing</b>	<b>317%</b>	<b>0%</b>

**43 INCOPORATION**

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

**44 CONTIGENT LIABILITIES**

The Corporation also discloses the following: -

Tax assessments by KRA of Kshs. 124 million,. The Corporation has entered into a payment plan and is liquidating at 13.5 million per month. Legal fees had a balance of 90 million and guarantee from treasury of 24 billion

**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.

No	Issue/Observations from the Auditor General	Management Comments	Status
1	<p><b>Unsupported Leases</b></p> <p>The statement of financial position reflected balances of Kshs.15,903,643, Kshs.14,435,919, Kshs.14,342,815 and Kshs.1,389,871 in respect of right of use asset, rent leases, lease liabilities (non-current) and lease liabilities (current) respectively.</p> <p>Management did not provide the lease agreements, contracts and other documents relating to the Lease assets and liabilities for audit verification.</p>	<p>Although it is the responsibility of the landlord to issue the tenant with a lease. Management drafted and shared lease documents with the landlords and the leases have now been registered.</p>	Resolved
2	<p><b>Property Plant and Equipment</b></p> <p><b>2.1 Untitled Land</b></p> <p>a) Parcels of land situated in Nairobi, Nanyuki, Nyahururu and Kapsabet valued at Kshs. 55,204,540 do not have ownership documents.</p> <p>b) There are unresolved disputes between the Corporation &amp; other parties in regard to ownership of a plot of land in Bungoma county.</p> <p>c) The plots in Nanyuki, Nyahururu &amp; Naivasha are not fenced to secure them from encroachment.</p>	<p>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.</p> <p>b) The matter is awaiting determination at the Bungoma Law Courts</p> <p>c) The Corporation has engaged Kenya Railways to obtain title deeds for the parcels to be allowed to fence.</p> <p>d) Management following up with our lawyers, the Kenya Railways Corporation, National Lands Commission and the EACC to ensure the ownership documents are obtained.</p>	Not Resolved
2.2	<p><b>Unsupported Diminution of Land Value</b></p> <p>Management made a provision for loss of land in respect of Loita Street and Nakuru of Kshs 63,390,540.</p> <p>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 &amp; Equipment.</p>	<p>The Corporation continues to engage the EACC, DCI &amp; NLC through regular correspondences.</p> <p>Management following up with our lawyers, National Lands Commission and the EACC to ensure the ownership documents are obtained.</p>	Not Resolved
3	<p><b>Trade &amp; Other Receivables</b></p> <p><b>3.1 Long Outstanding Debts</b></p> <p>As previously reported, the statement of financial position reflects trade and other receivables of Kshs. 691,936,235. This balance represents an increase of 68% from the previous year balance of Kshs. 411,249,548. Included in the trade and other receivables balance is Kshs. 16,001,702, Kshs. 26,052,746, Kshs. 9,334,817, Kshs. 10,414,567, 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. 126,313,370 includes rent arrears of, Kshs. 29,789,751 and Kshs. 54,140,577, held by former tenants and Uchumi Supermarkets Limited, respectively.</p>	<p>The increase in receivables was attributed to the additional credit sales to Government institutions who rely on exchequer funding. Delayed disbursements by The National Treasury attributed to high receivables at the end of the financial year.</p> <p>The Corporation is still pursuing the remaining Government institutions for the overdue payments Long outstanding rent receivables amounting to Ksh. 77.3 million relate to old tenants and Uchumi Supermarket. Uchumi moved to court for protection against eviction. The Corporation has since evicted Uchumi and has filed legal suits against Parker radio and Palmy Enterprises and Kilimo feeds.</p>	Not Resolved

3.2	<p>The recoverability of the receivables was doubtful.</p> <p><b>Provision for bad and doubtful debts</b> Trade and other receivables of Kshs. 691,415,607 resulted from deduction of provision for doubtful debts of Kshs. 69,415,607, from the gross amount of the receivables of Kshs. 761,351,842. However, the provision for doubtful debts is not supported by any documentary evidence. In addition, the opening balance of Kshs. 42,131,735 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.</p>	<p>Private debtors as at 30.06.2022 was Kshs. 26,052,746. Private debtors worth Kshs. 25,008,426 relate to long outstanding trade receivables which have been fully provided for in the books of accounts.</p> <p>Of the Ksh. 155.7 million rice receivables at 30.06.2022, Ksh. 154 million has been received as at 15<sup>th</sup> April 2023.</p> <p>Ksh.124 million receivables relate to other supplies to Government institutions out of which Ksh. 106 million has been received.</p> <p>Of the Ksh. 100.8 million rent receivables at 30.06.2022, Ksh. 14.9 million has been received.</p> <p>Requests for bad debts write offs will be submitted to the Board for concurrence in quarter four of 2022/2023 financial year then forwarded to the National Treasury for final approval of write off.</p> <p>Management has developed a bad debts write off policy and credit policy which have been approved by the Board of directors.</p>	
	<p><b>REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES</b></p> <p><b>1. Lack of Board Meeting Minutes</b> Review of the records revealed that there were no minutes for an Annual General Meeting and a Board of Directors meeting.</p> <p><b>2. Long Outstanding Payables</b> Review of documents revealed that payables totalling 39,209,572 have remained outstanding for a period of more than one year without settlement contrary to regulation 42(1) of the PFM regulations</p>	<p>The meeting minutes had been misfiled when the Company Secretary exited the Corporation. The minutes were later traced and are now available.</p> <p>The Corporation had been experiencing cashflow difficulties for many years caused by underfunding. As a result there was accumulation of property rates and rent. We engaged Kenya Railways and Nairobi City county and obtained waivers on interest and penalties.</p> <p>As at 31<sup>st</sup> March, all long outstanding payables had been settled</p>	<p>Resolved</p> <p>Resolved</p>

## 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 Co-operatives FY 2022/2023

#### Development Grants

	Bank Statement Date	Amount (KShs)	FY to which the amounts relate
Refurbishment of warehouses			
<b>Total</b>			

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

#### Finance & Accounts Manager

Kenya National Trading Corporation Ltd



Sign: .....

#### Head of Accounting Unit

State Department for Trade

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 asper bank statement	Nature: Recurrent/ Developme nt/Others	Total Amount - KES	Where Recorded/Recognized					Total Transfers during the Year
				Statement of Financial Performance	Capital Fund	Deferred Income	Receivables	Assets	

