REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Paper Laid on the Table of the House by the Leader of the Majority Party on Wednesday 29th August 2018 (Afternoon)

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF KENYA ORDNANCE FACTORIES CORPORATION

FOR THE YEAR ENDED 30 JUNE 2017

CONFIDENTIAL

KOFC

KENYA ORDNANCE FACTORIES
CORPORATION

REGULATORY AND NON – COMMERCIAL ENTITY

KENYA ORDNANCE FACTORIES CORPORATION

AUDITED ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

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

CONFIDENTIAL

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CORPORATE INFORMATION

INCORPORATION

The Kenya Ordnance Factories Corporation (KOFC) was established as a State Corporation in July 1997 it was exempted from the provision of the State Corporation Act (CAP 446) under the legal Notice No. 522 of the 28th October 1997. However, no gazettement was done to this effect during the changeover to a State Corporation from RTS Ngano Farm Project.

KOFC is a licensed ammunition dealer and water undertaker.

MANDATE

The mandate of the Corporation is to manufacture Military Hardware, Machinery and Equipment and engage in other activities normally connected with the incidental to the said object.

VISION

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

MISSION

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

OBJECTIVES

KOFC has established its objectives as follows;

- Self-sufficiency in supply of small arms ammunition
- Transfer of relevant technology
- Sale of surplus ammunition to friendly countries
- Create employment in line with Vision 2030
- Enhance Industrialization in line with vision 2030.

ISO CERTIFICATION

KOFC is ISO 9001-2008 CERTIFIED. The certificates registration number KEBS/QMS/RF/036 Rev. 02 was re issued by the Kenya Bureau of Standards on the 07th June 2016 to expire on 14 September 2018.

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

Kenya Ordnance Factories Corporation
Rts Ngano Project
Kitale Eldoret Road
P. O. Box 6634 - Eldoret

BANKERS

Co-operative Bank of Kenya
Eldoret Branch
P. O. Box 2948 30100 - Eldoret
Kenya

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

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

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

PRINCIPAL LEGAL ADVISER

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

INDEPENDENT AUDITOR

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

DIRECTORS REPORT

The directors present the audited financial statements for the year ended 30th June 2017

RESULTS

The Surplus for the year was **Kshs.79,833,447.00**

THE ROLE OF THE BOARD

The Board Directors is responsible for the long term growth and profitability of the Corporation. The Board charts the direction and monitors management's performance. It is the critical role of the Board to ensure that the Corporation pursues strategies that increase profitability.

BOARD MEETINGS

The Board meets quarterly for scheduled meetings. For specific issues of special nature, extra ordinary Board meetings are held in between the scheduled quarterly meetings.

The scheduled Board meetings encompass the review of the periodical Corporation's performance against the set targets as well as monitoring of business and operational issues. All Board committee reports are reviewed and appropriate action taken.

COMPOSITION OF THE BOARD OF DIRECTORS

The Board has a Chairman, independent and Non-Executive Directors. All Directors are appointed and Gazetted.

All directors are independent and free from any business interest, or other relationship that could materially interfere with the exercise of independent judgment

BOARD COMMITEES

The Board carries out certain aspects of its duties by delegation to the Board Committees. These committees meet for scheduled meetings and on occasions where business of special nature has to be conducted. The committees operate under terms of reference approved by the Board and their duties are limited to the operations of the Corporation.

At present there are three Board Committees. These are Audit committee, Information Technology Committee and Strategic Committee.

KEY MANAGMENT/BOARD OF DIRECTORS

The Directors who held office during the year to the date of the report were:-

General S J Mwathethe
Chairman

Lt Gen R K Kibochi
Director as from 28 Jul 16

Maj Gen S N Thuita
Director

Maj Gen L F Mghalu
Director

Lt Gen L M Ngondi
Director
Up to 28 Jul 17

Mr Saitoti Torome
Principal Secretary MoD
As from 05 Apr 17

Amb P K Kaberia
Principal Secretary MoD
Up to 05 Apr 17

Maj Gen (Rtd) C Mwanzia
Director

Maj Gen (Rtd) M O Oyugi
Director as from 07 Jun 16

Maj Gen (Rtd) P O Awitta
Director as from 07 Jun 16

Dr Kamau Thuge
PS National Treasury

Mr O Ontweka
Alternate Director
National Treasury

Maj Gen M M Munyoki
Managing Director

Directors who left during the year were:

Lt Gen L M Ngondi	Director up to 28 July 2016
Amb P K Kaberia	Director up to 05 April 2017

FIDUCIARY/MANAGEMENT TEAM

The managers who held office during the year to the date of report were:

Maj Gen Michael M Munyoki
Managing Director

Col C N Mathenge
General Manager
As from 28 Jul 16

Col G Okumu
General Manager
Up to 28 Jul 16

Col D O Odeny
Legal Officer

Lt Col J K Korir
Human Resources Manager
Up to 23 Feb 17

Lt Col A M Nteere
Human Resources Manager
As from 23 Feb 17

Lt Col B N Njiraini
Production Manager

Lt Col D K Sawe
Maintenance Manager
Up to 28 Feb 17

Lt Col O M Rajab
Maintenance Manager
As from 28 Feb 17

Maj D N Mutiso
Plant Manager

Maj Edward R Githui
Procurement Manager

Maj Guido A Leariwala
Security Manager
As from 20 Nov 16

S N Osembo
Security Manager
Up to 20 Dec 16

Mr Leo K Kerich
Quality Assurance Manager

Mrs Magdalene Ochola
Commercial Services Manager

Capt J N Munjogu
Plant Manager

Mr. Daniel K Towett
Finance Manager

Managers who left during the year were:

Col G Okumu	General Manager left on 28 July 2016
Lt Col J K Korir	Human Resources Manager left on 22 February 2017
Lt Col D K Sawe	Maintenance Manager left on 23 February 2017
Maj S N Osembo	Security Manager left on 20 December 2016

BY ORDER OF THE BOARD

GEN S J MWATHETHE MGH, MBS, DCO, 'ndc'(K), 'psc' (UK)
Chairman, Board of Directors

CORPORATE GOVERNANCE STATEMENT

The Kenya Ordnance Factories Corporation Board of Directors and management are committed to the highest level of corporate governance, which we consider critical to business integrity and to maintaining stakeholders trust in the Corporation. We promote traditions that values and rewards the maximum ethical principle, personal and corporate integrity. The Corporation expects all its directors, employees, customers and suppliers to act with honesty, integrity and fairness. Our doctrine set out the business standards and in turn, the values we set ourselves ensure we operate lawfully, with integrity and with respect, observing and respecting the Kenya citizens.

The Board is responsible for the overall conduct of the Corporation operations and has the powers, authorities and duties vested in it by and pursuant to the relevant laws of Kenya and the State Corporation Act. The Board has final responsibility for the management, direction and performance of the Corporation. It is also required to exercise objective judgment on all corporate matters independent from management and is responsible for ensuring the effectiveness of and reporting of the Corporation corporate governance.

The full Board meets at least four times a year. The Directors receive all information relevant to the discharge of their obligations in accurate, timely and clear form so that they can guide and maintain full and effective control over strategic, financial, operational and compliance issues. Except for direction and guidance on general policy, the Board has delegated authority for conduct of day-to-day business to the Managing Director. The Board nonetheless retains responsibility for establishing and maintaining the Corporation's overall internal control of financial, operational and compliance issues as well as implementing strategies for the long term success.

The Board has three standing committees, which meet regularly under the terms of reference set by the Board. The Corporation has defined procedures and financial controls to ensure the reporting of complete and accurate accounting information. These cover systems for obtaining authority for major transactions and for ensuring compliance with laws and regulations that have significant financial implications. Procedures are also in place to ensure that assets are subject to proper physical controls and that the organization remains structured to ensure appropriate segregation of duties. The Corporation is committed to the highest standards of integrity, behavior and ethics in dealing with all its stakeholders. A formal code of ethics has been approved by the Board and is fully implemented to guide management, employees and Stakeholders on acceptable behavior in conducting business. All employees of the Corporation are expected to avoid activities and financial interests that could undermine their responsibilities to the Corporation.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Our Commitment to our stakeholders is to improve the quality of lives of community surrounding our installation through Corporate Social Responsibilities. We take our social and environmental responsibility seriously and support the communities and the environment within which we do our business. The Board and Management believe that Corporate Social Responsibility (CSR) programmes should be relevant, impactful, and sustainable. The Board takes overall responsibility for the continued development and implementation of appropriate social and environmental policies of the Corporation. Our focus is on empowerment of youth women and Persons with disabilities. The Corporation reaches out to communities along our waterline by connecting them to the Pipeline to access safe cleaner water. During the year under review, the Corporation was involved in one CSR activity, Environmental Conservation. The Corporation relies on the environment extensively for its business, including timber for packaging our product. Since 2009, the Corporation has been involved in tree-planting within it vast land.

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 Kenya Ordnance Factories Corporation which gives a true and a fair view of the state of affairs of the Corporation as at the end of the financial year and of the operating results of the year. They are also required to ensure that the corporation maintains proper accounting records which disclose with reasonable accuracy at any time the financial position of the Corporation. They are also responsible for safeguarding the assets of the Corporation.

The Directors are responsible for the preparation and presentation of the State Corporations financial statements which give a true and fair view of the state of affairs of the Corporation for and as at the end of the financial year 2016/2017 ended on June 30, 2017. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the 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 Corporations financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgment and estimates, in conformity with International Public Sector Accounting Standards (IPSAS) and in the manner required by the PFM Act and the State Corporation Act. The Directors are of the opinion that the Corporations financial statements give a true and fair view of the state of the Corporations transactions during the financial year ended June 30, 2017, and the Corporation financial position as at that date. The directors further confirm the completeness of the accounting records maintained for the Corporation which have been relied upon in the preparation of the Corporation's financial statements as well as adequacy of the systems of internal financial control.

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

Approval of the financial statements

The Kenya Ordnance Factories Corporation financial statements were approved by the Board on..28 MAY...2018 and signed on its behalf by:

Director...Director...

REPUBLIC OF KENYA

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HARAMBEE

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA ORDNANCE FACTORIES CORPORATION FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Ordnance Factories Corporation set out on pages 12 to 66, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, 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, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya Ordnance Factories Corporation as at 30 June 2017, and its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the State Corporations Act, Cap 446 of the Laws of Kenya.

In addition, as required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1.0 Property Plant and Equipment

1.1 Assets Register

The statement of financial position reflects property plant and equipment figure of Kshs.2,987,593,272 as at 30 June 2017 comprising of building and civil works, water line and civil works, work in progress, plant equipment and machinery, motor vehicles, furniture and fittings and computers with total cost of Kshs.4,549,761,722 as disclosed in note 11 to the financial statements. However, assets with total cost of Kshs.810, 360,413 were not recorded in the fixed asset register. Further as reported in the previous years, a schedule with details of the buildings, civil works, waterline, plant, equipment and machinery, furniture and fittings has not been provided for audit verification. Although management explained that the register indicates the block figures that were obtained from the records of the contractor and that the Ministry of Defence is working with the government chief valuer of the Ministry of Lands Housing and Settlement to value all the corporation assets including land so that the same can be properly documented, no documentary evidence has been provided in support. It is therefore not known when the process of valuing of the assets shall be completed and the register updated.

Consequently, the accuracy, validity and existence of the assets' balance of Kshs.2,987,593,272 could not be confirmed.

1.2 Land

The statement of financial position as at 30 June 2017 and note 11 to the financial statements reflects non-current assets figure of Kshs.2,987,593,272. However, as reported in previous years, the Corporation only has title documents for land measuring 727.7 hectares on which the factory stands. The Corporation further requested the Government to allocate it additional 908 hectares to enable it attain the required safety distance for the factory, subsequent to which an allotment letter for additional land was issued. The process of surveying the additional 908 hectares started in February 2011 but stalled due to squatters who could not allow surveyor's access to the land in the buffer zone which is necessary to ensure safety of the people in the neighbourhood and security of the factory in accordance with International Standards.

In addition, all parcels of land including land registration numbers Kakamega /Sango/1970, LR No.27206/1 and LR No.27206/2 measuring 0.48 hectares, 2545 hectares and 727.1 hectares respectively have not been valued and included in these financial statements.

Consequently, the accuracy and completeness of the non-current assets' balance of Kshs.2,987,593,272 could not be confirmed.

1.3 Idle Machinery

Available information revealed that the Corporation has in its records idle property, plant and equipment with an unknown value which were either installed, partially installed or not installed at all comprising of anvil piecing machines (2No), prima cap manufacturing machine (1No), prima polishing machines (5No) and a tracer bullet loading. The machinery has been lying idle from the time the factory was built. This is contrary to the provisions of Section 72(1) (a) of the Public Finance Management Act, 2012 which states that the accounting officer for a national government entity shall manage the assets of the entity in a way which ensures that the national government entity achieves value for money in acquiring, using and disposing of those assets.

Consequently, the Corporation has not obtained value for money in respect of the idle machinery that have not been put to use since the factory was established.

2.0 Trade and Other Receivables

2.1 Claimable Value Added Tax

As previously reported, the statement of financial position reflects trade and other receivables' figure of Kshs.437,758,058 as at 30 June 2017 which includes claimable value added tax amount of Kshs.109,476,090 as disclosed in note 16 to the financial statements and which is indicated as Kshs.73,098,600 due from Ministry of Defence and Kshs.36,377,490 due from Kenya Revenue Authority. However, no record has been provided for audit verification to ascertain how the amounts were arrived at. Information available indicates that the amount of Kshs.73,098,600 includes Kshs.68,861,381 which was ascertained when the corporation filed a VAT claim of Kshs.81,000,000 with the Kenya Revenue Authority (KRA) for the period September 2013 and July 2014 in November 2014 which was however long after the due date. Records reviewed indicated that the input tax on imported raw materials was paid by the Ministry of Defence on behalf of the corporation using its PIN No P051098785V while the claim was filed by the corporation using the Corporation PIN No P051121081J but there was no evidence to indicate that the two entities are jointly registered for VAT refund. Although the Corporation has now indicated that the amount is due from the Ministry of Defence, there has been no documentary evidence to show that the Ministry of Defence is pursuing the claim on behalf of the Corporation and if the amount is still recoverable.

Further, included in the claimable VAT amount of Kshs.109,476,090 is an amount of Kshs.36,377,490 claimable for the year 2003. However, letter Ref no. KRA/DTD/AM&RD/007 dated 22nd February 2017 from Kenya Revenue Authority indicates that the Withholding VAT Refund of Kshs.36,377,490 is not payable as the claim was submitted late and therefore time bared. Although, the Corporation has indicated that it has engaged a tax consultant in March 2018 to follow up the claim, there has been no indication of the progress made in recovering the claim.

Consequently, the recoverability of the claimable VAT amount of Kshs.109,476,090 is doubtful and the accuracy of the trade and receivables balance of Kshs.437,758,058 as at 30 June 2017could not be confirmed.

2.2 Other Exchange Debtors

Included also in the trade and other receivables figure of Kshs.437,758,058 is other exchange debtors figure of Kshs.154,704,695 out of which an amount of

Kshs.2,416,450 is in respect of a prepayment made to a South African firm in 2010/2011 and which has remained outstanding since then. Although the management has indicated that the issue is being pursued by the Kenya's Defence Attaché in South Africa, no documentary evidence has been provided to show the progress made and when the amount shall be recovered from the firm.

In addition, the other exchange debtors figure of Kshs.154,704,695 includes an amount of Kshs.9,088,067 owed by Engineers Brigade out of a total of Kshs.45,063,592 advanced to it between 2013 and 2015 to produce bottled water on behalf of the Corporation. Water supplies with an amount of Kshs.35,975,525 were made. Although information available indicates that a Board of Officers (BOO) was constituted in August 2017 to investigate the matter, a report of this instigation was not provided for audit review.

Consequently, the recoverability of the prepayment balance of Kshs.11,504,517 could not be confirmed.

2.3 Tax Recoverable

As reported in the previous years, the statement of financial position reflects tax recoverable balance of Kshs.12,859,976 as at 30 June 2017 as disclosed in note 17 to the financial statements in respect of Value Added Tax (VAT) due from Kenya Revenue Authority (KRA) which has been outstanding for the last 16 years. Although the collectability of this amount is doubtful, the Corporation has not made a provision to cover the uncertainty in recovering the claim.

Consequently, recoverable of the amount of Kshs.12,859,976 could not be confirmed.

3.0 Trade and Other Payables

3.1 Trade Payables

The statement of financial position reflects trade and other payables' balance of Kshs.515,566,684 which includes trade payables' figure of Kshs.277,354,628 as disclosed in note 20 to the financial statements. As reported in the previous years, the trade payables figure of Kshs.277,354,627 was in respect of prepayment made by the Ministry of Defence in respect of deposits for product purchases which have however remained unsettled or un-serviced since 2011/2012. Although the management has explained that the Corporation and the Ministry of Defence reached an agreement for the Corporation to issue a credit note for the outstanding balance, the agreement has not been availed for audit verification.

3.2 Payments Received in Advance

The trade and other payables' balance of Kshs.515,566,684 also includes payments received in advance of Kshs.140,000,000 as disclosed in note 20 to the financial statements, being cash advance from the Ministry of Defence which was to be refunded in form of ammunition or cash but has remained outstanding since 2011/2012. Although the management has explained that the delay in refund has been due to frequent breakdown in machines and that with the establishment of a new production line, the corporation shall be in a position to service the order or refund the money, no indication has been given as to when the new production line will be established or when the refund will be made.

4.0 Sale of Scrap Metal

The statement of financial performance for the year ended 30 June 2017 reflects other income figure of Kshs.230,595,493 which includes income from sale of scrap metal of Kshs 37,892,242 as disclosed in note 6 to the financial statements that were sold to a single firm. Records available indicates that the corporation's sale of scrap contract with the firm expired on 30 June 2016 but the firm requested for extension of the agreement for another two years commencing 1 July 2016. According to inter-office memo dated 30 June 2016, the management approved the extension of the sale agreement (KOFC/001/15-16) and asked the buyer to review the current price of brass scrap at Kshs.208.80 per Kilogram and stainless steel at Kshs.58 per kilogram to which the firm reviewed the price to Kshs.232 for assorted brass per kilogram and retained the price of stainless steel at Kshs.58 per kilogram.

However, the Corporation did not maintain an annual asset disposal plan as required by Section 53 (4) of Public Procurement and Assets Disposal Act,2015 which states that all asset disposals shall be planned by the accounting officer concerned through annual asset disposal plan in a format set out in the Regulations. Further, the Corporation did not provide clearance from the Cabinet Secretary in line with Section 90 (5) of the Public Procurement and Assets Disposal Act, 2015 which states that the procuring entities that deal with classified items shall agree annually with the Cabinet Secretary on the category of classified items to be included in the classified list of procurements or disposals to be applied. In addition, there is no evidence that the current prices were determined by a technical committee in accordance with Section 164 (3) of the same Act.

Consequently, the management breached the law and the accuracy of the scrap mental income of Kshs.37,892,242 for the year ended 30 June 2017 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Ordnance Factories Corporation in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, I have determined that there are no Other Key Audit Matters to communicate in my report.

Other Matter

1.0 Governance Framework

1.1 Lack of Independent Internal Audit Function

Although the Corporation had established an internal audit unit to oversee the governance mechanism and promote transparency and accountability in the management of the corporation's resources, the unit operated without an audit charter detailing the scope, responsibilities and purpose of internal audit function. Although the management stated that the unit shall adopt and customise the Ministry of Defence internal audit charter, there is no indication as to when this shall be done and availed for audit review. Further, the internal audit function had only two officers who reported both administratively and functionally to the Managing Director instead of reporting functionally to the Audit Committee contrary to Section 155(1) of the Public Finance Management Regulations, 2015.

Consequently, the unit lacks operational independence and guiding tool to execute its mandate and which is against the law.

1.2 Failure to Establish Audit Committee

The Corporation has not established an audit committee contrary to Section 73 (5) of the Public Finance Management Act, 2012 which states that every national government public entity shall establish an audit committee whose composition and functions shall be as prescribed by the regulations. Although the management explained that the Board was in the process of establishing an audit committee and that the names have been proposed awaiting approval to commence work, no documentary evidence was availed in support of this or an indication as to when the process shall be completed.

Consequently, the management is in breach of the law.

2.0 Failure to Observe One Third Staff Establishment Rule

Audit of the payroll for the month of June 2017 showed that Kenya Ordinance Factories Corporation had a staff establishment of 267 (two hundred and sixty seven) other permanent and pensionable staff out of whom 130 (one hundred and thirty) or 49% were from the dominant ethnic community leaving 137 (one hundred and thirty seven) or 51% from other communities as analysed below:

Structure	No	Dominant Ethnic Community No	Dominant Ethnic Community %	Non Dominant Ethnic Community No	Non-Dominant Ethnic Community %
Board of Directors	11	0	N/A	11	100
Senior Management	12	0	N/A	12	100
Other permanent and Pensionable Staff	267	130	48.7	137	51.3

This is contrary to Section 7 (1) and (2) of the National Cohesion and Integration Act, No. 12 of 2008 which requires all public establishments to seek to represent the diversity of the people of Kenya in employment of staff and that no public establishments shall have more than one third of its establishment from the same ethnic community.

Consequently, the management has contravened the one third ethnic diversity rule on staff establishment.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the management either intends to liquidate the Corporation or to cease operations, or have no realistic alternative but to do so.

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

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

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

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.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism 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.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Corporation's internal control.

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

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Corporation to cease as a going concern or to continue to sustain its services.

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

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

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

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

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

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

Nairobi

11 July 2018

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30/06/2017

	NOTE	YEAR ENDED 2016-2017 KSHS	YEAR ENDED 2015-2016 KSHS
SALES	3	725,285,941	924,877,049
COST OF SALES	4	(882,681,106)	(985,483,137)
GROSS		(157,395,164)	(60,606,088)
TRADING (LOSS)/PROFIT		(157,395,164)	(60,606,088)
FARM INCOME	5	143,889,250	115,296,300
OTHER INCOME	6	230,595,493	151,838,318
RECURRENT GRANT	7	354,845,911	303,672,093
FAIR VALUE GAIN/(LOSS) ON BIOLOGICAL ASSETS	8	4,516,940	19,946,090
ADMINISTRATIVE EXPENSES	9	(501,266,830)	(392,344,960)
OTHER OPERATING EXPENSES (Audit Fee)		(812,000)	(812,000)
		231,768,764	197,595,841
OPERATING (LOSS)/PROFIT		74,373,600	136,989,753
FINANCE (COST)/INCOME	10	6,423,349	7,303,089
WITHHOLDING TAX ON FIXED DEPOSITS		(963,502)	(1,095,991)
(LOSS)/PROFIT BEFORE TAX		**79,833,447**	**143,196,851**
PROFIT/LOSS AFTER TAX		**79,833,447**	**143,196,851**

STATEMENT OF FINANCIAL POSITION
AS AT 30/06/2017

	NOTES	2016-2017 KSHS	2015 - 2016 KSHS
NON-CURRENT ASSETS			
PROPERTY PLANT AND EQUIPMENT	**11**	2,987,593,272	3,059,609,462
		2,987,593,272	3,059,609,462
CURRENT ASSETS			
INVENTORY	**12**	1,370,453,843	1,190,819,785
BIOLOGICAL STOCKS	**13**	143,677,800	142,177,800
CASH AND BANK BALANCES	**14**	188,504,160	169,242,794
SHORT TERM INVESTMENT	**15**	77,000,000	122,450,564
TRADE AND OTHER RECEIVABLES	**16**	437,758,057	386,048,925
TAX RECOVERABLE	**17**	12,859,976	12,859,976
		2,230,253,836	2,023,599,844
EQUITY AND LIABILITIES		**5,217,847,108**	**5,083,209,307**
EQUITY			
GOVERNMENT INVESTMENT	**18**	5,122,530,513	5,122,530,513
REVALUATION SURPLUS	**19**	37,670,072	37,670,072
REVENUE RESERVES		(457,920,160)	(537,753,607)
		4,702,280,425	**4,622,446,978**
CURRENT LIABILITIES			
TRADE AND OTHER PAYABLES	**20**	515,566,684	460,762,328
TOTAL EQUITY AND LIABILITIES		**5,217,847,108**	**5,083,209,306**

The financial statements were approved by the Board of Directors on ....and signed on its behalf by

....(Director)......................................(Managing Director)

MAJ GEN M O OYUGI KA (Rtd) **MAJ GEN M M MUNYWOKI**

STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30/06/2017

	GOVERNMENT INVESTMENTS KSHS	REVALUATION SURPLUS KSHS	REVENUE RESERVE KSHS	TOTAL KSHS
BALANCE AS AT 1st JULY 2015	5,122,530,513	37,670,072	(680,950,458)	4,479,250,127
Net (Loss)/Profit for the Year	-	-	143,196,851	143,196,851
BALANCE AS AT 30th JUNE 2016	**5,122,530,513**	**37,670,072**	**(537,753,607)**	**4,622,446,978**
BALANCE AS AT 1st JULY 2016	5,122,530,513	37,670,072	(537,753,607)	4,622,446,978
Net (Loss)/Profit for the Year	-	-	79,833,447	79,833,447
BALANCE AS AT 30th JUNE 2017	**5,122,530,513**	**37,670,072**	**(457,920,160)**	**4,702,280,425**

Revaluation Surplus is related to valuation of motor vehicles after they were fully depreciated.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30/06/2016

	NOTE	YEAR ENDED 2016-2017 KSHS	YEAR ENDED 2015-2016 KSHS
Operating Activities			
(Loss)/Profit before tax		79,833,447	143,196,851
Adjustments for:			
Interest Income	10	(6,423,349)	(7,303,089)
Depreciation	21	104,526,711	111,212,652
Increase/Decrease in fair value of Biological Assets		(4,516,940)	(19,946,090)
Changes in working capital:			
(Increase)/Decrease in Inventory		(175,189,191)	(153,259,727)
(Increase)/Decrease in Debtors and prepayments		(51,709,132)	39,025,172
Increase/(Decrease) in Creditors and accruals		54,804,356	(68,378,417)
Cash generated from operations		1,325,900	44,547,351
Tax paid - Withholding Tax on Deposits)		(881,544)	(1,095,991)
Net Cash (used) generated from operating activities		444,356	43,451,361
Investing activities			
Purchase of fixed assets	22	(32,510,519)	(62,602,838)
Interest received	10	5,876,965	7,303,089
Net cash used for investing activities		(26,633,554)	(55,299,749)
Financing activities			
Government Investment		-	-
Increase/(Decrease) in cash and cash equivalents		(26,189,198)	(11,848,388)
Movement in cash and cash equivalents			
Cash and Cash Equivalent at the beginning of the year		291,693,358	293,064,465
Increase/(Decrease) during the year		(26,189,198)	(11,848,388)
Cash and Cash Equivalent as at 30th June 2017	15	265,504,160	291,693,358

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2017

Revenue/Expenditure (Kshs)	Original budget	Adjustments	Final Budget	Actual Comparable Basis	Performance Difference	Remarks
	2016 - 2017	2016 - 2017	2016 - 2017	2016 - 2017	2016 - 2017	
Revenue	**Kshs**	**Kshs**	**Kshs**	**Kshs**	**Kshs**	
Ammo Sales	865,862,118	-	865,862,118	722,915,388	(142,946,730)	Machine Breakdown resulting to low production
Ammo Scrap	30,000,000	-	30,000,000	37,435,520	7,435,520	
Disposal	500,000	-	500,000	456,722	(43,278)	
General Engineering Sales	1,000,000	-	1,000,000	2,370,553	1,370,553	
Piped Water Sales	3,000,000	-	3,000,000	2,692,620	(307,380)	
Farm Sales	66,000,000	-	66,000,000	84,614,021	18,614,021	Increased Production of Hay
Maize Milling	51,520,000	-	51,520,000	59,275,229	7,755,229	
Field Kitchen Fabrication	46,710,000	-	46,710,000	39,579,107	(7,130,893)	
Interest Income	15,000,000	-	15,000,000	6,423,349	(8,576,651)	
Bakery Sales	65,000,000	-	65,000,000	104,567,350	39,567,350	Increased demand for Recruits
Water Bottling Sales	35,000,000	-	35,000,000	43,760,697	8,760,697	Increased demand from DEFCO
Weapon Repair	0.00	23,661,494	25,697,080	25,697,080	0.00	
KOFC Grant	135,000,000	57,500,000	192,500,000	192,500,000	0.00	
Total Income	**1,314,592,118**	**81,161,494**	**1,397,789,198**	**1,346,062,466**	**(75,501,599)**	

Expenses	Original budget	Adjustments	Final Budget	Actual Comparable Basis	Performance Difference	Remarks
	2016 - 2017	2016 - 2017	2016 - 2017	2016 - 2017	2016 - 2017	
	Kshs	Kshs	Kshs	Kshs	Kshs	
Materials for Ammo Production	559,728,638	-	559,728,638	853,062,442	(293,333,804)	Prepaid FY14/15 Raw Materials received in FY 15/16
Carbide Tools	15,857,000	-	15,857,000	9,701,104	6,155,896	
Auxiliary Parts for Tools Prod	11,787,938	5,000,000	16,787,938	9,701,104	7,086,834	
Materials for Tools Production	3,705,408	5,000,000	8,705,408	8,488,973	216,435	
Consumables/ Lab Chemicals	5,188,700	-	5,188,700	122,670	5,066,030	
Water Treatment Expenses	2,842,940	-	2,842,940	1,129,778	1,713,162	
Machine Spares	28,193,281	-	28,193,281	11,569,056	16,624,225	
Electricity Expenses	35,000,000	-	35,000,000	44,451,374	(9,451,374)	Replacement of 33 KVA Transformers and servicing of KOFC private power line after its breakdown
Salaries and Allowances	225,589,335	-	225,589,335	192,443,598	33,145,737	
Motor Vehicle Operating Expe	25,000,000	-	25,000,000	26,244,580	(1,244,580)	Increased Fuel Cost
Directors Allowances	5,000,000	-	5,000,000	481,075	4,518,925	One Board meeting held during the FY
Travelling & Accommodation	12,000,000	-	12,000,000	13,097,331	(1,097,331.00)	Increase in SRC Subsistence Allowances Rates

Expenses	Original budget	Adjustments	Final Budget	Actual Comparable Basis	Performance Difference	Remarks
	2016 - 2017	2016 - 2017	2016 - 2017	2016 - 2017	2016 - 2017	
	Kshs	Kshs	Kshs	Kshs	Kshs	
Official Entertainment	3,600,000	-	3,600,000	1,380,393	2,219,607	
Telephone & Internet Expenses	2,750,000	-	2,750,000	1,829,117	920,883	
Postal Expenses	900,000	-	900,000	989,574	(89,574)	Increased International Postage Expenses
Water and Conservancy	900,000	-	900,000	1,016,742	(116,742)	Increased fee rates by National Water Conservancy
Purchase of Drugs & Dressings	100,000	-	100,000	5,055	94,945	
Printing Expenses	500,000	-	500,000	308,040	191,960	
Purchase of Protective Gear	2,500,000	-	2,500,000	1,882,390	617,610	
Purchase of Stationery	3,723,450	-	3,723,450	1,683,184	2,040,266	
Manuals & Technical Journals	504,000	-	504,000	334,250	169,750	
Maintenance of Buildings	15,000,000	-	15,000,000	5,155,576	9,844,424	
Payment of Rent	2,160,000	-	2,160,000	1,725,600	434,400	
Purchase of General Stores	3,500,000	5,000,000	8,500,000	7,551,341	948,659	
Insurance Expenses	23,900,900	-	23,900,000	21,949,762	1,950,238	
Clearing, Transport & Freight	30,000,000	10,000,000	40,000,000	40,505,056	(505,056)	
ISO 9001:2008 Certification Expenses	1,850,000	-	1,850,000	298,340	1,551,660	
Bank Charges & Commission	7,000,000	-	7,000,000	4,240,696	2,759,304	
Maintenance of Roads	12,500,000	-	12,500,000	13,794,498	(1,294,498)	
Computer Expenses	2,224,010	-	2,224,010	1,019,450	1,204,560	
In Depth and Consultancy	10,811,160	-	10,811,160	10,093,089	718,071	

Expenses	Original budget	Adjustments	Final Budget	Actual Comparable Basis	Performance Difference	Remarks
	2016 - 2017	2016 - 2017	2016 - 2017	2016 - 2017	2016 - 2017	
	Kshs	Kshs	Kshs	Kshs	Kshs	
Audit Expenses	1,612,000	-	1,612,000	812,000	800,000	
Farm Expenses	44,981,821	-	44,981,821	48,890,451	(3,908,630)	Procurement of Additional Farm Chemicals due to Army Worms
Mobile Field Kitchen Fabrication Expenses	4,853,815	-	4,853,815	3,747,229	1,106,586	
Water Bottling Consumables	18,144,584	-	18,144,584	9,376,778	8,767,806	
Bakery Consumables	52,915,981	40,000,000	92,915,981	85,273,631	7,642,350	Increased production due to recruits demand
Milling Plant Consumables	35,550,680	-	35,550,680	38,273,783	(2,723,103)	Increased cost of Maize (Raw Materials)
Training and Research Expenses	3,618,700	-	3,618,700	3,698,526	79,826	
Sales and marketing	2,400,000	-	2,400,000	1,563,454	836,546	
Spectrophotometer Machine	10,000,000	-	10,000,000	0.00	10,000,000	
Purchase of Motor Vehicles	15,000,000	-	15,000,000	0.00	15,000,000	
Purchase of Domestic and Household Equipment	3,000,000	-	3,000,000	3,178,837	(178,837)	
Purchase of Office Equipment	5,143,010	-	5,143,010	5,416,950	(273,940)	
Purchase of Security Equipment	9,000,000	10,000,000	19,000,000	14,756,928	4,243,072	
Purchase of Communication Equipment	500,000	-	500,000	17,999	482,001	

Expenses	**Original budget**	**Adjustments**	**Final Budget**	**Actual Comparable Basis**	**Performance Difference**	**Remarks**
	2016 - 2017	**2016 - 2017**	**2016 - 2017**	**2016 - 2017**	**2016 - 2017**	
	Kshs	**Kshs**	**Kshs**	**Kshs**	**Kshs**	
Laboratory Reagents	3,740,900	-	3,740,900	21,706	3,719,194	
Replacement of Water line Equipment	3,626,705	-	3,626,705	2,060,398	1,566,307	
Milling Plant Equipment	25,000,000	-	25,000,000	7,514,448	17,485,552	
Field Kitchen Fabrication Equipment	0.00	40,000,000	40,000,000	39,360,415	639,585	Pre-Payment
Water Bottling Plant	5,230,000		5,230,300	4,087,362	1,142,638	
Ballistic Analyser	43,000,000	(40,000,000)	3,000,000	0.00	3,000,000	Funds Re allocated
Machine Overhaul	20,000,000	(20,000,000)	0.00	0.00	0.00	Funds Re Allocated
Purchase of Forklift	5,500,000	(5,000,000)	500,000	0.00	500,000	Funds Re Allocated
Farm Machinery	11,230,000	-	11,230,000	3,348,041	7,881,959	
Bakery Upgrade	10,931,940	-	10,931,940	6,373,310	4,558,630	
Total Expenditure	**1,389,296,896**	**50,000,000**	**1,439,296,896**	**1,564,027,484**	**(124,730,588)**	0
Surplus (Deficit) for the Period	**(74,704,778)**	**31,161,494**	**(43,543,284)**	**(241,739,848)**		

Notes to the Financial Statements:

1. General Information

Kenya Ordnance Factories Corporation is established and derives its authority from Legal Notice No. 125, of 25 July 1997 Cap 446. The entity is wholly owned by Government of Kenya and is domiciled in Kenya, The entity's principal activity is to manufacture Hardware, Machinery and Equipment.

2. Statement of compliance and basis of preparation – IPSAS 1

The Kenya Ordnance Factories Corporation financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Corporation. The accounting policies have been consistently applied to all the years presented.

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

Summary of Significant Accounting Policies

a. Revenue recognition

i) Revenue from non-exchange transactions – IPSAS 23

Fees, taxes and fines: The Corporation recognizes revenues from fees, taxes and fines when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the Corporation and the fair value of the asset can be measured reliably.

Transfers from other government entities: Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the Corporation and can be measured reliably.

ii) Revenue from exchange transactions – IPSAS 9

Rendering of services: The Corporation recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction

Notes to the Financial Statements Continued:

can be estimated reliably. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours.

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

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

Interest income: Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

b) Budget information – IPSAS 24

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the Corporation. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or Corporation differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

c) Taxes – IAS 12

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 Corporation 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

Notes to the Financial Statements Continued:

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.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit.

Deferred tax items are recognized in correlation to the underlying transaction in net assets.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable Corporation and the same taxation authority.

Sales tax: Expenses and assets are recognized net of the amount of sales tax, except:

When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable

When receivables and payables are stated with the amount of sales tax included the net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

d) Investment property – IPSAS 16

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property.

Notes to the Financial Statements Continued:

Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment properties are measured using the cost model and are depreciated over a 30-year period.
Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition. Transfers are made to or from investment property only when there is a change in use.

e) Property, plant and equipment – IPSAS 17

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the Corporation recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value. The annual depreciation rates in use are:

Building and Civil works	1.00%
Waterline and Civil works	1.00%
Plant, Equipment and Machinery	2.50%
Motor Vehicles	25.00%
Furniture and Fittings	5.00%
Computers	30.00%

f) Intangible assets – IPSAS 31

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred. The useful life of the intangible assets is assessed as either finite or indefinite.

g) Research and development costs

The Corporation expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Corporation can demonstrate:

Notes to the Financial Statements Continued:

The technical feasibility of completing the asset so that the asset will be available for use or sale

Its intention to complete and its ability to use or sell the asset

How the asset will generate future economic benefits or service potential

The availability of resources to complete the asset

The ability to measure reliably the expenditure during development

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

h) Biological Assets

Living plants with probable future economic benefits, which are owned and controlled by the Corporation, are accounted for as biological assets. Biological assets and agricultural produce are measured at their fair value less estimated point of sale cost.

The fair value of the biological assets and agricultural produce that have an active market is determined using the quoted prices in the market. The fair value of the biological assets that do not have an active market is determined based on the present value of the expected net cash flows discounted at the current market determined pre-tax borrowing rate.

The fair value of the Corporation newly planted crops is estimated by reference cost incurred on the crops up to the reporting date.

Point of sale costs includes commissions to brokers and dealers, levies by regulatory agencies and transfer taxes and duties but exclude transport and other necessary to get the assets to the markets.

For Financial reporting purposes, the Corporation classifies its biological assets as follows:
Consumable Biological Assets:Consumables biological assets are those that are to be harvested as agricultural produce or sold as biological assets.
Bearer Biological Assets: Other Biological assets are classified as bearer biological assets.
Gains or losses arising on initial recognition of biological assets and agricultural produce and from changes in fair value less point of sale costs are recognized in the income statement for the year.

Notes to the Financial Statements Continued:

h) Financial instruments – IPSAS 29

Financial assets

Initial recognition and measurement: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Corporation determines the classification of its financial assets at initial recognition.

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

Held-to-maturity:Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Corporation has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

Impairment of financial assets:The Corporation assesses at each reporting date whether there is objective evidence that a financial asset or a Corporation of financial assets is impaired. A financial asset or a Corporation of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the Corporation of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

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

i) Financial liabilities

Initial recognition and measurement:Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Corporation determines the classification of its financial liabilities at initial recognition.All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

Notes to the Financial Statements Continued:

Loans and borrowing:After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.
IPSAS 29.65
Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

j) Inventories – IPSAS 12

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition. Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

Raw materials: purchase cost using the weighted average cost method

Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

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

ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution. Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Corporation.

k) Provisions – IPSAS 19

Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Corporation expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.
Contingent liabilities:The Corporation does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Notes to the Financial Statements Continued:

Contingent assets: The Corporation does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Corporation in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

l) Nature and purpose of reserves

The Corporation creates and maintains reserves in terms of specific requirements. Corporation states the reserves maintained and appropriate policies adopted.

m) Changes in accounting policies and estimates – IPSAS 3

The Corporation recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

n) Employee benefits – IPSAS 25

Retirement benefit plans: The Corporation provides retirement benefits for its employees. Defined contribution plans are post-employment benefit plans under which an Corporation pays fixed contributions into a separate Corporation (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the

current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

o) Foreign currency transactions – IPSAS 4

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

Notes to the Financial Statements Continued:

p) Borrowing costs – IPSAS 5

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment. Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

q) Related parties – IPSAS 20

The Corporation regards a related party as a person or an Corporation with the ability to exert control individually or jointly, or to exercise significant influence over the Corporation, or vice versa. Members of key management are regarded as related parties and comprise the managers and senior managers.

r) Service concession arrangements – IPSAS 32

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

s) Cash and cash equivalents

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

t) Comparative figures

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

Notes to the Financial Statements Continued:

u) Significant judgments and sources of estimation uncertainty – IPSAS 1

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

Estimates and assumptions:The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Corporation based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Corporation. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

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 asset
Changes in the market in relation to the asset

Provisions:Provisions were raised and management determined an estimate based on the information available. 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. Assumptions were used in determining the provision for rehabilitation of landfill sites. Landfill areas are rehabilitated over years and the assumption was made that the areas stay the same in size for a number of years. Provision is made for the estimated cost to be incurred on the long-term environmental obligations, comprising expenditure on pollution control and closure over the estimated life of the landfill. The provision is based on the advice and judgment of qualified engineers. The estimates are discounted at a pre-tax discount rate that reflect current market assessments of the time value of money. The increase in the rehabilitation provision due to passage of time is recognized as finance cost in the statement of financial performance.

The cost of ongoing programs to prevent and control pollution and rehabilitate the environment is recognized as an expense when incurred.

Notes to the Financial Statements Continued:

v) Subsequent events – IPSAS 14

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2017.

Notes to the Financial Statements Continued:

3. Sales

	2017 Kshs	2016 Kshs
Ammunition Sales	722,915,388	921,808,256
Fabrication and Auxiliary repairs	2,370,553	3,068,793
	725,285,941	924,877,049

4. Cost of Sales

	2017 Kshs	2016 Kshs
Opening Stocks of finished goods	148,246,522	264,678,115
Production cost of finished goods	885,199,312	869,051,544
Closing stock of finished goods	(150,764,728)	(148,246,522)
Cost of Sales	**882,681,106**	**985,483,137**

5. Farm Income

	2017 Kshs	2016 Kshs
Shelled Maize/Boma Rhodes/Chenga	84,614,021	61,305,047
Maize Flour/Bran	59,275,229	53,991,254
	143,889,250	**115,296,301**

6. Other Income

	2017 Kshs	2016 Kshs
Piped Water	2,692,620	3,111,986
DEFKITCH 2012- Field Kitchen	39,579,107	16,034,862
Bottled Water	43,760,697	32,236,708
Scrap Metal	37,892,242	36,887,310
Bakery Products	104,567,350	63,470,482
Refunds	2,103,477	96,970
Total Other Income	**230,595,493**	**151,838,318**

7. Grant

	2017 Kshs	2016 Kshs
Operational Recurrent Grant	174,161,494	145,811,160
Other Grant Salaries	178,684,417	157,860,933
Total grants and subsidies	354,845,911	**303,672,093**

8. Fair Value Gain/ (Loss) on Biological Assets

	2017 Kshs	2016 Kshs
Fair value at the beginning of the year	142,177,800	131,613,000
Decrease in Fair value due to harvesting	(51,923,757)	(61,305,047)
Additional at Cost	48,906,817	51,923,757
Fair Value gain arising from physical changes	4,516,940	19,946,090
Fair Value at the end of the year	**143,677,800**	**142,177,800**

Notes to the Financial Statements Continued:

Significant assumption made in the estimation of the fair value of the biological assets:

a. The market conditions remain constant

b. The prevailing climatic conditions will not change

c. The price of farm inputs required to sustain the estimated yields will not change in the entire period considered to be the life cycle of the crops.

9. Administrative Expenses

Administrative Expenses	**2017**	**2016**
	Ksh	**Ksh**
Motor vehicle running expenses	26,244,580	25,942,703
Travelling and accommodation	13,097,331	11,843,301
Administration salaries and allowances	111,338,404	96,366,409
Telephone and postage	2,818,691	3,128,566
Computer expenses	1,019,450	388,710
Official Entertainment	1,380,393	560,211
Directors Fees	481,075	474,511
Legal and Consultancy	10,093,089	-
Weapon Repair Expenses	23,408,753	-
Uniforms	1,882,391	1,978,585
Printing and Stationery	1,991,224	1,852,403
Rents	1,725,600	1,866,000
General stores and Replacement of Pumps	9,611,739	2,203,018
Training	353,777	1,260,265
Research & Development	3,344,749	-
Bank charges	4,240,696	4,077,886
Medical expenses	5,055	27,074
Electricity	8,890,275	5,657,163
Depreciation:		
Motor vehicles	2,935,684	4,697,270
Buildings and civil works	1,727,313	1,727,313
Furniture and fittings	235,892	210,305
Waterline and civil works	953,474	953,474

Computers	2,318,432	596,493
Advertising	1,563,454	1,275,213
Newspapers and periodicals	595,258	424,465
Domestic and Household Expenses/Office Equipments	3,513,087	3,447,250
Insurance	4,389,952	2,451,571
Building and Roads maintenance	18,950,073	3,677,435
Clearing and Transportation Expense	40,505,056	18,166,262
ISO Certification	298,340	1,275,428
Water and Conservancy	1,016,742	864,916
Security Expenses	14,756,928	2,058,886
Communication Expenses	17,999	-
Field Kitchen Fabrication	3,747,229	28,575,404
Farm Expenses	48,890,451	51,923,757
Bakery Consumables	85,273,631	46,280,082
Water Bottling Consumables	9,376,778	27,474,996
Milling Plant Consumables	38,273,783	38,637,634
TOTAL EXPENDITURE	**501,266,830**	**392,344,960**

10. Finance Income – External Investments

	2017 Kshs	**2016 Kshs**
Fixed Deposits Interest	6,423,349	7,303,089
Total Finance Income	**6,423,349**	**7,303,089**

Notes to the Financial Statements Continued:

11. Property Plant and Equipment

AS AT 30/06/2017	BUILDING AND CIVIL WORKS	WATERLINE AND CIVIL WORKS	WORK IN PROGRESS	PLANT EQUIPMENT, MACHINERY	MOTOR VEHICLES	FURNITURE AND FITTINGS	COMPUTERS	TOTAL
COST	**KSHS**	**KSHS**	**KSHS**	**KSHS**	**KSHS**	**KSHS**	**KSHS**	**KSHS**
1st JULY 2016	863,656,515	476,737,242	128,113,187	2,906,973,814	93,945,409	21,030,467	26,794,569	**4,517,251,203**
CAPITALIZED	-	-	-	-	-	-	-	**-**
ADDITIONS	-	-	13,984,466	10,884,639	-	2,558,714	5,082,700	**32,510,519**
30th JUNE 2017	863,656,515	476,737,242	142,097,653	2,917,858,453	93,945,409	3,589,181	31,877,269	**4,549,761,722**
DEPRECIATION								
ACCUMULATED AS AT 01 JULY 2016	149,013,932	83,060,270	-	1,111,751,304	75,079,151	13,797,538	24,939,544	**1,457,641,741**
CHARGE FOR THE YEAR	8,636,565.15	4,767,372.42	-	72,946,461.33	14,678,421.00	1,179,459.05	2,318,431.60	**104,526,710.55**
ACCUMULATED AS AT 30 JUNE 2017	157,650,497	87,827,642	-	1,184,697,765	89,757,572	14,976,997	27,257,976	**1,562,168,449.55**
NET BOOK VALUE 30 JUNE 2017	706,006,018	388,909,600	142,097,653	1,733,160,688	4,187,837	8,612,184	4,619,293	**2,987,593,272**
NET BOOK VALUE 30 JUNE 2016	714,642,583	393,676,972	128,113,187	1,795,222,510	18,866,258	7,232,929	1,855,025	**3,059,609,462**

AS AT 30/06/2016	BUILDING AND CIVIL WORKS	WATERLINE AND CIVIL WORKS	WORK IN PROGRESS	PLANT EQUIPMENT, MACHINERY	MOTOR VEHICLES	FURNITURE AND FITTINGS	COMPUTERS	TOTAL
COST	**KSHS**	**KSHS**	**KSHS**	**KSHS**	**KSHS**	**KSHS**	**KSHS**	**KSHS**
1st JULY 2015	863,656,515	476,737,242	111,908,052	2,890,674,240	67,256,022	18,681,425	25,734,869	**4,454,648,365**
CAPITALIZED	-	-	-	-	-	-	-	**-**
ADDITIONS	-	-	16,205,135	16,299,574	26,689,387	2,349,042	1,059,700	**62,602,838**
30th JUNE 2016	863,656,515	476,737,242	128,113,187	2,906,973,814	93,945,409	21,030,467	26,794,569	**4,517,251,203**
DEPRECIATION								
ACCUMULATED AS AT 01 JULY 2015	140,377,367	78,292,898	-	1,039,076,959	51,592,799	12,746,015	24,343,051	**1,346,429,090**
CHARGE FOR THE YEAR	8,636,565	4,767,372	-	72,674,345	23,486,352	1,051,523	596,493	**111,212,652**
ACCUMULATED AS AT 30 JUNE 2016	149,013,932	83,060,270	-	1,111,751,304	75,079,151	13,797,538	24,939,544	**-**
NET BOOK VALUE AS AT 30 JUNE 2016	714,642,583	393,676,972	128,113,187	1,795,222,510	18,866,258	7,232,929	1,855,025	**-**
NET BOOK VALUE AS AT 30 JUNE 2015	723,279,148	398,444,344	111,908,052	1,851,597,281	15,663,224	5,935,410	1,391,818	**3,108,219,275**

Notes to the Financial Statements Continued:

12. Inventories

	2017 Kshs	2016 Kshs
Raw materials	1,007,410,650	622,510,495
Chemicals Oils and Lubricants	81,607,545	25,780,800
Other Raw Materials, Field Kitchen and Tools/Dies	42,341,668	124,653,769
Field Kitchen plus Cooking Pots	19,697,749	64,488,707
Work in Progress	38,707,103	147,437,688
Finished goods	150,764,728	150,072,936
Shelled Maize Stock	28,874,400	44,643,000
Production Scrap Metal	1,050,000	11,232,390
Total inventories at the lower of cost & Realizable value	**1,370,453,843**	**1,190,819,785**

13. Biological Asset

	2017 Kshs	2016 Kshs
Maize	52,200,000	52,200,000
Assorted Trees	83,677,800	82,177,800
Wheat	1,800,000	1,800,000
Pasture	6,000,000	6,000,000
	143,677,800	**142,177,800**

14. Cash and Cash Equivalents

	2017 Kshs	2016 Kshs
Kenya Commercial Bank	138,185,906.60	157,539,682
Kenya Commercial Bank (Dollar A/c)	7,878,720.55	-
Co-operative Bank of Kenya (Main)	14,793,572.60	3,112,970
Co-operative Bank of Kenya (Bakery Eld)	17,069,294.40	4,472,776
Co-operative Bank of Kenya (Bakery Gilgil)	1,757,876.51	-
Equity Bank	3,626,395.70	2,805,661
National Bank of Kenya	3,006,309.05	57,985
Cash on Hand	2,186,084.70	1,253,721
Total cash and Cash Equivalents	**188,504,160.11**	**169,242,795**

15. Short Term Deposit

	2017 Kshs	2016 Kshs
Kenya Commercial Bank	77,000,000	122,450,564
	77,000,000	**122,450,564**

Notes to the Financial Statements Continued:

16. Trade and other Receivables

	2017	2016
Current Receivables	**Kshs**	**Kshs**
Ammunition and Service Debtors	172,036,798	108,538,703
Other Exchange Debtors	154,704,695	171,436,375
Claimable Value Added Tax	109,476,090	106,073,848
Staff Debtors	1,540,475	
	437,758,058	**386,048,925**

17. Tax Recoverable

	2017	2016
	Kshs	**Kshs**
Tax Recoverable from KRA	12,859,976	12,859,976

18. Government Investment: The Government investment of Ksh 5,122,530,513.00 is the initial investment in form of grants made by the Government of Kenya as per the figure provided by the National Treasury while establishing the Factory in respect to Buildings, Plant and Equipment, Civil Works, Motor Vehicles, Waterline, Power Installation and other Capital Investments.

19. Revaluation Surplus: This Value was obtained after valuation of Motor Vehicles after they were fully depreciated.

20. Trade and Other Payables from Exchange Transactions

	2017	2016
	Kshs	**Kshs**
Trade payables	277,354,628	277,354,627
Payments received in advance	140,000,000	140,000,000
Other payables	55,835,196	43,407,701
Contract Retention	2,376,860	-
Differed Income (Grant)	40,000,000	
Total trade and other payables	**515,566,684**	**460,762,328**

21. Depreciation and Amortization	**2017**	**2016**
	Kshs	**Kshs**
Building and Civil Works	8,636,565.15	8,636,565.15
Waterline and Civil Works	4,767,372.42	4,767,372.42
Plant, Equipment and Machinery	72,946,461.33	72,674,345.35
Motor Vehicles	14,678,421.00	23,486,352.25
Furniture and Fittings	1,179,459.05	1,051,523.35
Computers	2,318,431.60	596,493.00
Total depreciation and amortization	**104,526,710.65**	**111,212,652.00**

Notes to the Financial Statements Continued:

22. Purchase of Fixed Assets

	2017 Kshs	2016 Kshs
Work in progress	13,984,466	16,205,135
Plant Equipment & Machinery	10,884,639	16,299,574
Motor Vehicles	-	26,689,387
Furniture and Fittings	2,558,714	2,349,042
Computers	5,082,700	1,059,700
Total Purchase of Fixed Assets	**32,510,519**	**62,602,838**

23. Bulk Purchase of electricity

	2017 Kshs	2016 Kshs
Electricity	44,451,374	28,285,814
Total bulk purchase	**44,451,374**	**28,285,814**

24. Related party Transactions

Kenya Ordnance Factories Corporation is a State Corporation managed by the Ministry of Defence and the Government is the only stakeholder with 100% shareholding. The Corporation transacts with all government security agencies. These transactions are carried out at mutually agreed terms and are in the normal course of business.
During the year the following transactions were entered into with related parties:

Sales to related parties:

	2017 Kshs	2016 Kshs
Ammo Sales	725,285,941	921,808,256

	2017 Kshs	2016 Kshs
Financial Grant	175,661,494	145,811,160

Employee Cost

	2017 Kshs	2016 Kshs
KOFC personal Salaries and Allowances	192,443,603	163,360,429
Seconded Personnel Salaries and Allowances	178,684,412	158,153,614
Total Employee cost	**371,128,015**	**321,221,363**

Directors Allowances

	2017 Kshs	2016 Kshs
Directors Allowances	481,075	474,511
Total Directors Allowances	**481,075**	**474,511**

Notes to the Financial Statements Continued:

25. Contracted Services

	2017 Kshs	2016 Kshs
Consultancy/In depth Analysis	10,093,089	
Certifications	298,340	1,275,428
Insurance Brokerage	21,949762	12,257,857
Total contracted services	**32,341,191**	**13,533,285**

26. Cash generated from operations

	2017 Kshs	2016 Kshs
Surplus/Deficit for the year before tax	79,930,117	143,196,851
Adjusted for:		
Depreciation	104,526,711	111,212,652
Finance Income	(6,423,711)	(7,303,089)
Increase/Decrease in fair value of biological assets	(4,516,940)	(19,946,090)
Working Capital adjustment:		
Increase in Inventory	(175,285,861)	(153,259,727)
Increase in receivables	(51,709,132)	39,025,172
Increase in payables	54,804,356	(68,378,417)
Tax Paid	(881,544)	(1,095,991)
Net cash flow from operating activities	**444,356**	**43,451,361**

27. Retirement Benefits Scheme

The Corporation operates a defined contribution retirement plans for eligible employees. The assets of the plans are held separately from those of the Corporation in funds under the control of trustees. The scheme is administered by an independent administration company and is funded by contributions from the Corporation employees. The Corporation obligations to the staff retirement benefits plans are charged to profit or loss as they fall due as they accrue to each employee. The Corporation also makes contributions to the statutory defined contribution schemes. The only obligation of the Corporation with respect to the retirement benefit plan is to make the specified contributions. The expense in respect to NSSF and Employer Pension contribution of Kshs 667,000.00 and Kshs 9,617,294.10 respectively has been included within the retirement benefits costs under staff costs in the notes.

28. Financial Instruments and Risk Management

The Corporation activities expose it to a variety of financial risks, including market risks, credit risks, liquidity risk, operational risks and interest risks. The Corporation overall risks management program focuses on the unpredictability of financial markets to minimize potential adverse effects on the corporation financial performance.

The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework.

29. Credit Risk: No collateral is held for any of the above assets and no receivables have had their terms negotiated. None of the above assets are past due or impaired.

Notes to the Financial Statements Continued:

30. Liquidity Risk Management: Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations from its financial liabilities when due at a reasonable cost.

Prudent liquidity risk management includes maintaining sufficient cash for operations. Management monitors rolling forecast of the Corporation's liquidity reserve on the basis of expected cash flows.

31. Contingent Liabilities: There are no contingent liabilities for which provisions have not been made in these financial statements.

32. Currency: These financial statements are presented in Kenya Shillings (Ksh).

33. Event after the reporting period: There are no material non adjusting events after the reporting date.

Notes to the Financial Statements Continued:

34. DETAILED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30/06/2017

	NOTE	2016-2017 KSHS	2015-2016 KSHS
SALES		725,285,941	924,877,049
LESS:			
Opening stock of finished goods		148,246,522	264,678,115
Production cost of finished goods		885,199,312	869,051,544
Closing stock of finished goods		(150,764,728)	(148,246,522)
COST OF GOODS SOLD		882,681,106	985,483,137
TRADING (LOSS)/PROFIT		(157,395,164)	(60,606,088)
DEFKITCH 2012 (Field Kitchen Sales)		39,579,107	16,034,862
Bank interest income		6,423,349	7,303,089
Water Sales		46,453,317	35,348,694
Scrap Sales		37,892,242	36,887,310
Milling Sales		59,275,229	53,991,254
Farm income		84,614,021	61,305,047
Bakery Sales		104,567,350	63,470,482
Insurance Refund and Crop Destruction			
Fees/Fine		2,103,477	96,970
Recurrent Grants		354,845,911	303,672,093
Fair Value Gain/(Loss) on Biological Assets		4,516,940	19,946,090
		582,875,779	537,449,802
EXPENDITURE			
Amortization of power line installation costs		-	-
Motor vehicle running expenses		26,244,580	25,942,703
Travelling and accommodation		13,097,331	11,843,301
Administration salaries and allowances		111,338,404	96,366,409
Telephone and postage		2,818,691	3,128,566

Computer expenses	1,019,450	388,710
Official Entertainment	1,380,393	560,211
Directors Fees	481,075	474,511
Legal and Consultancy	10,093,089	-
Weapon Repair Expenses	23,408,753	-
Uniforms	1,882,391	1,978,585
Printing and Stationery	1,991,224	1,852,403
Rents	1,725,600	1,866,000
General stores and Replacement of Pumps	9,611,739	2,203,018
Training	353,777	1,260,265
Research & Development	3,344,749	-
Bank charges	4,240,696	4,077,886
Medical expenses	5,055	27,074
Electricity	8,890,275	5,657,163
Depreciation:		
Motor vehicles	2,935,684	4,697,270
Buildings and civil works	1,727,313	1,727,313
Furniture and fittings	235,892	210,305
Waterline and civil works	953,474	953,474
Computers	2,318,432	596,493
Advertising	1,563,454	1,275,213
Newspapers and periodicals	595,258	424,465
Domestic and Household Expenses/Office Equipment	3,513,087	3,447,250
Insurance	4,389,952	2,451,571
Building and Roads maintenance	18,950,073	3,677,435
Clearing and Transportation Expense	40,505,056	18,166,262
Audit fees	812,000	-
ISO Certification	298,340	1,275,428
Water and Conservancy	1,016,742	864,916
Security Expenses	14,756,928	2,058,886
Communication Expenses	17,999	-
Field Kitchen Fabrication	3,747,229	28,575,404

Farm Expenses	48,890,451	51,923,757
Bakery Consumables	85,273,631	46,280,082
Water Bottling Consumables	9,376,778	27,474,996
Milling Plant Consumables	38,273,783	38,637,634
TOTAL EXPENDITURE	502,078,830	392,344,960
Withholding Tax	(963,502)	(1,095,991)
OPERATING (LOSS)/PROFIT	**79,833,447**	**143,196,851**

Notes to the Financial Statements Continued:

35. MANUFACTURING ACCOUNT FOR YEAR ENDED 30TH JUNE 2017

	2016-2017 KSHS	2015-2016 KSHS
DIRECT COSTS:		
Opening stock of raw materials	648,291,295	513,236,382
Purchases of raw materials	862,763,546	722,239,446
	1,511,054,841	1,235,475,828
Less:		
Closing stock of raw materials	(1,175,345,417)	(648,291,295)
Cost of raw materials used	335,709,424	587,184,534
Add:		
Direct labour	259,789,610	224,854,954
Prime cost	595,499,034	812,039,487
FACTORY OVERHEADS:		
Insurance	17,559,810	9,806,286
Electricity	35,561,099	22,628,652
Water & effluent treatment chemicals	1,129,778	509,240
consumables	8,611,643	9,817,977
Machine spares & Maintenance	11,569,056	23,466,335
Depreciation:		
Plant and machinery	72,946,461	72,674,345
Motor vehicles	11,742,737	18,789,082
Buildings and civil works	6,909,252	6,909,252
Furniture and fittings	943,567	841,219
Waterline and civil works	3,813,898	3,813,898
	170,787,302	169,255,284
TOTAL	**766,286,336**	**981,294,772**
Opening work-in-progress	147,437,688	42,919,851
Opening scrap	11,232,390	3,507,000
Less:		
Closing work-in-progress	(38,707,103)	(147,437,688)
Closing scrap	(1,050,000)	(11,232,390)
PRODUCTION COST OF FINISHED GOODS	885,199,312	869,051,544

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
1.0 1.1	**Non Current Assets, Unsupported Additions to Property, Plant and Equipment.** Note 11 to the financial statements reflect property, plant and equipment additions of Ksh 62,602,838 out of which Ksh 16,299,574 was spent on plant, equipment and machinery while Ksh 2,349,042 was incurred on furniture and fittings all totalling Ksh 18,648,616. However, supporting documents such as copies of the tender advertisement, tender opening and evaluation committee minutes, tender award minutes, contract agreements, copies of local purchase orders and Invoices were not availed for audit verification. Further, certificates issued by the inspection and acceptance committee were similarly not availed for audit review. Consequently, it has	To support the additions to Property Plant and Equipment additions of Ksh 62,602,838.00 as reflected in note 11 (page 31) to the FY 15/16 financial statements, we shall avail where applicable for verification/review during systems audits Payment Vouchers, copy of advertisement/quotation, tender opening, evaluation minutes, tender award minutes, contract agreement, LPO/invoices for audit verifications.	Procurement Manager	Resolved	10 May 17

Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
	not been possible to confirm the accuracy, validity and propriety of expenditure of Ksh 18,648,616 incurred on additions of plant, equipment and machinery and furniture and fittings during the year under review.				
1.2	**Land.** The statement of financial position as at 30 June 2016 and note 11 to the financial statements reflect non –current assets figure of 3,059,609,462. However as reported in previous years, the Corporation only has title documents for land measuring 727.7 hectares on which the factory stands. The corporation, having requested the government to allocate it additional 908 hectares to enable it attain the required safety distance for the factory, was issued with an allotment letter for additional land. The process of surveying the additional 908 hectares started in February 2011 but stalled due to squatters who could not allow surveyor's access to the land in the	The process of valuing all the Corporation land is at an advanced stage. Cadastral Survey exercise on all Military land was completed in November 2014. Survey works to pave way for the issuance of title deeds and subsequent valuation which had initially stalled due to interference by the squatters was concluded by surveyors from the Ministry of lands and the beacons to cover the buffer zone confirmed by us on 04 June 2014. The title deed for LR 27206 (908 Hectares) was to be issued in the month of December 2014 which is currently being followed up by the Ministry of Defence. The Corporation management has engaged the Ministry of Defence Works Department in liaison with the Chief Valuer Ministry of Lands Housing and Settlement to value land	KOFC Board of Directors and PS Ministry of Defence	Not Resolved	30 Jun 2018

Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
	buffer zone. The buffer zone is necessary to ensure safety of the people in the neighbourhood and security of the factory in accordance with international standards. In addition, all parcels of the land including land registration numbers Kakamega/Sango/1970, LR No.27206/2 measuring 0.48 hectares, 2545 hectares and 727.1 hectares respectively have not been valued and included in these financial statements. Consequently, it has not been possible to confirm the accuracy and completeness of the non-current assets balance of Kshs.3,059,609,462 and certify the balance as fairly stated as at 30 June 2016	measuring 727.7 hectares and the additional 908 hectares once the title for the land is released by the Ministry of Lands/National Land commission. The parcel of land Kakamega/Sango/1970, LR No. 27206/1 and LR No. 27206/2 measuring 0.48 hectares, 2545 hectares and 727.10 hectares all with titles was due for valuation in FY 2015/16 but due to lack of budget allocation, the exercise was postponed and scheduled for this FY 2016/17 as per the attached letter Ref: DHQ/M826/WKS dated 07 April, 2016. Although the process of valuing the land is in progress, there has been a frosty relation between KOFC, local neighbouring population and County Administration since March 2016 on the 908 and 727.7 hectares, as a result of land dispute between the locals agitating to be squatters. The land dispute culminated to the Parliamentary Select Committee (PSC) on Defence and Foreign Relation visit to the Corporation on 08 November 2016, where they were briefed on the same.			

Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
		To address the prolonged land dispute, the PSC recommended fencing of the land belonging to KOFC. Subsequently, the Board of Directors during the 52nd Board Meeting held on 09 Dec 16 approved the tunnelling/embankment of KOFC land at Ksh 10 million which was concluded. It is our anticipation that by the end of FY 2017/18 the ownership issues and valuation of all KOFC land will have been concluded and the value incorporated in the financial statements.			
2.0	**Trade and Other Receivables.**				
2.1	**Value Added Tax Recoverable** As similarly reported in the previous year, the trade and other receivables balance of Kshs.386,048,925 includes claimable Value –Added-Tax balance of Kshs.106,073,848 which in turn includes outstanding claims of Kshs.4,827,256 for the year under review. The amount was reportedly, accumulated over the previous ten	The Corporation during the year under review cleared its imported raw materials at a cost of Ksh 81 million. This was done through the engagement of Port Ordnance the institution that is responsible for the clearance of all imported goods/materials for the Ministry of Defence. The Corporation made the claim to the Kenya Revenue Authority (KRA) to refund the amount of Ksh 81 million. Subsequently,	KOFC Board of Directors and PS Ministry of Defence	Not Resolved	30 Jun 2018

Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
	years. However, no record has been provided for audit verification to show how the amount was arrived at. Information available indicates that the Corporation filed a VAT claim of Kshs.81,000,000 with the Kenya Revenue Authority(KRA) for the period September 2013 to July 2014 in November 2014 which was long after the due date. According to the records reviewed, the input tax on imported raw materials was paid by the Department of Defence on behalf of the Corporation using DOD PIN No P051098785V, while the claim was filed by the Corporation using its PIN No P051121081J but there is no evidence to indicate that the two are jointly registered for VAT refund. As a result of these anomalies, recoverability of the claim is doubtful.	a team from the Auditor General Office was tasked to verify the claim on behalf of KRA to facilitate the processing of the refund/payment. During the verification process it was noted that part of the amount claimed of Ksh 81 million included railway levies and custom duties amounting to Ksh 16,287,779.00 which was not claimable therefore reducing the admissible claimable amount to Ksh 64,771,221.00. Following the Auditors observation that the records available indicates that the input tax on imported raw materials was paid through Department of Defence (Port Ordnance) on behalf of the Corporation using DOD KRA PIN No P051098785V while the claim has been made by the Corporation using PIN NO P051121081J is correct. Considering that the two are not jointly registered for VAT refund, the Corporation with authority from Kenya Revenue Authority vide their letter reference P051121081J dated 08 December 2016 engaged Department of Defence to claim the amount of Ksh 64,771,221.00 on its behalf since the documents supporting the claim contain			

Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
		the DHQ PIN numbers. A letter was thereafter forwarded to the Ministry of Defence requesting to them to claim for the refund of VAT on behalf of the Corporation. The Ministry of Defence has already launched a claim of the same which is being processed. However, the Kenya Revenue Authority noted that the Corporation was enjoying a credit of the same amount as indicated in the monthly e-return acknowledgement. They further confirmed that the refund cannot be processed unless it is reversed by KOFC on the monthly e-Return Acknowledgement Slip to avoid duplication of the claim as KOFC is enjoying the credit while the Ministry of Defence has launched the same for refund. Once the amount is reversed by KOFC, KRA will therefore capture the claim in their systems and subsequently process it for refund to Ministry of Defence and thereafter onward payment to KOFC. KOFC is liaising with KRA and the Ministry of Defence to ensure it is immediately reversed. Therefore the FY 2017/18 financial statements will require adjustments of our books on trade and			

Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
		other receivable to read DHQ to be a debtor instead of VAT claimable under the Kenya Revenue Authority. The progress of refund is to be presented to the Board of Directors during the next Board meeting scheduled for the month of Oct 2017. In the case of VAT claimable of Ksh 36,475,371.00 which has been outstanding for the past nine years, the Corporation made a claim to the Kenya Revenue Authority for refund. However, documents to confirm that the amount deducted as VAT totalling to this amount and remitted were not available with KRA to facilitate the processing. Kenya Revenue Authority requested KOFC to obtain the relevant documentations from the Kenya Police, Administrative Police and the Kenya Forests to support the claim which have been availed for confirmation of their admissibility. The refund is still outstanding. The KRA analyzed the Certificates availed to them to confirm admissibility. Based on the analysis, the withholding VAT refund was			

Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
		not payable since it is time barred. The VAT refund applications as per repealed VAT Act 476 section 11(2) and (2A) states that registered taxpayer/person should submit VAT refund claims within twelve months from the date the tax became payable. Considering that the claim dates back to the year 2003 hence being declared time barred, the Corporation made a request for further consideration on the claim and to reverse the decision of declaring it time barred. KRA with reference to VAT Act 476 repealed section 24(c) on public interest advised that with the authority from the National Treasury, they can reverse the decision. Consultations were made with the National Treasury through the Corporation Board of Directors representative – National Treasury to confirm whether there is a possibility of the amount being considered for refund as recommended by KRA officials. The outcome of the consultations is that the claim may be considered as recommended. In order for this to be taken up by the National Treasury, the Principal Secretary Ministry of Defence officially			

Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
		launched the request to his counterpart at the National Treasury. The matter is being handled between the two Ministries Principal Secretaries to ensure the matter is resolved.			
2.2	**<u>Tax Recoverable</u>** The statement of financial position further reflects additional tax balance of Kshs.12,859,976 recoverable from KRA which has, however, been outstanding for the last 15 years. Although the collectability of this amount is in doubt, the Corporation has not made a provision to cover the uncertainty in recovering the claim	The FY 2017/18 financial statements with the approval of the Board of Directors, a provision to cover the uncertainty of the collectability of Ksh 12,859,976 from KRA which has been outstanding for the last 15 years.	KOFC Board of Directors and PS Ministry of Defence	Not Resolved	30 Jun 2018
3.0	**<u>Prepayment,</u>** The trade and other receivables balance of Kshs.386,048,925 as at 30 June 2016 and as disclosed in Note 16 to the financial statements includes other exchange debtors balance of Kshs.171,436,375 out of which an amount of Kshs.2,416,450 is in respect of a prepayment made to an overseas	This Corporation made an order to M and E Tools (PTY) Limited of South Africa to supply quantity three (3) Complete Clutch - Harrison M350 for single lathe machine at CIF cost of Euro 18,268.80. This amount equivalent to Ksh 2,416,450.00 was paid in advance to the supplier as per the quotation of which they were to	KOFC Board of Directors and PS Ministry of Defence	Not Resolved	30 Jun 2018

Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
	supplies firm that has remained outstanding since 2010/2011. No reason has been provided for non-recovery of the amount. Consequently, the accuracy and recoverability of the prepayment balance of Kshs.2, 416,450 cannot be onfirmed.	deliver within 12 - 16 weeks from receipt of the order. However, on 17 February, 2012 the supplier indicated that the price we paid for was for plates and not the complete clutch. This could not serve the purpose and was not commensurate with the amount paid in advance. It is in this regard that the corporation wrote a letter to the Kenya Defence Forces Director of Military Intelligence (DMI) to task DA South Africa to assist us in the recovery of the money from the firm. This is still being pursued by the DA South Africa however, considering that the firm has been in communication with the Corporation, it is our anticipation that they may be able to refund the amount or alternatively supply any other requirement quoted for and awarded and is equivalent to the same amount in order to settle the debt. Alternatively, the Corporation intends to seek arbitration though Department of Defence Legal on the same as it was provided for in the terms and conditions of the order.			

Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
4.0	**Trade and Other Payables** As similarly reported in previous years, included in trade and other payables balance of Kshs.460,762,328 shown in the statement of financial position for the year ended 30 June 2016 is cash advance from the Ministry of Defence amounting to Kshs.140,000,000 that has remained outstanding since 2011/2012. The management has not indicated when the liability shall be cleared. The trade and other payables balance further includes prepayments of Kshs.277,354,627 made by the Ministry of Defence in respect of deposits for product purchases which have however remained unsettled or unserviced since 2011/2012. No reason has been provided for failure to service the orders for such a long period of time. Consequently, the validity accuracy and completeness of the trade and other payables balance of Kshs.460,762,328 as at 30 June 2016 cannot b confirmed.	During the FY 2011/12, this Corporation was granted financial assistance as an advance of Ksh 140,000,000.00 by the Ministry of Defence which was to be refunded in form of ammunition or cash when the Corporation financial situation improves. However, this obligation still remains as agreed and will be fulfilled when we conclude servicing of the outstanding orders for all our security agencies. Once we complete servicing of the orders, the funds generated will be utilized to procure additional raw materials for the production of required ammunition equivalent to Ksh 140 million in order to offset the liability. Prepayment amount of Ksh 460,762,328 as at 30 June 2016 includes Ksh 277,354,627.00 paid in advance by the Ministry of Defence for the supply of products. Contrary to your observation that this has remained un-serviced since FY 2011/2012, the Corporation has been servicing quantity one (1) million assorted ammunition as agreed upon during the	KOFC Board of Directors and PS Ministry of Defence	Not Resolved	30 Jun 2018

Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
		Kenya Ministry of Defence (KMOD) and Kenya Ordnance Factories Corporation harmonization meeting held on 14 Nov 2014 at Headquarters Kenya Army Officers Mess. During the meeting, the outstanding amount worth of ammunition was Ksh 304,911,827.00 equivalent to quantity 7,229,452.00 assorted rounds has reduced to Ksh 277,354,627.00 as at 30 June 2016 of. The reduction of Ksh 27,557,200.00 in the prepayments is a clear indication that the Corporation has and will continue servicing the order as agreed during the meeting. The agreement made during the meeting was that since the priorities of ammunition requirements rapidly change, the unsupplied quantities and worth be converted to monetary values and KOFC replaces them with a credit note. Once the credit note is issued, KMOD will have the freedom to raise fresh orders of equivalent credit note value to offset the debt. KMOD to orders total of quantity one (1) million assorted natures each Financial Year.			

Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
5.0	**Inventory** The statement of financial position as at 30 June 2016 reflects inventory balance of Kshs.1,190,819,785. However, the balance has not been supported by valuation or end of year stock taking reports. Consequently, the validity, accuracy and completeness of the inventory balance of Kshs.1,190,819,785 as at 30 June cannot be confirmed.	Stocktaking was undertaken in the month of July 2016 as per the mandatory requirement. The team generated schedules extracted from the stocktaking report and the same used to prepare the financial statement. To support the inventory of Ksh 1,190,819,785.	Procurement Manager and Stores Manager	Resolved	30 Jun 2017
6.0	**Other Income** Included in the other income balance of Kshs.151,838,318 shown in the statement of finance performance for the year ended 30June 2016 is sale of scrap metal of Kshs.36,887,310 out of which an amount of Kshs.36,423,072 or 99% was sold to a firm through single sourcing. The disposal was done contrary to section 90 (2) of the Public Procurement Act,2015 that requires the National security organs and other	The Corporation disposed ammunition production scrap worth **Ksh 36,887,310.00** as indicated in the report. As required, by law KOFC made a request to the Ministry of Industrialization to advice and provide a list of authorized dealers of Non- Ferrous Scrap metal. The Ministry of Industrialization in their letter dated 01st September 2015 listed M/s Metal Merchants, Rainmac Metal Forwarders, Bullion Metal Works and Aswan Commodities as the authorized	Commercial Services Manager	Resolved	30 Jun 2017

Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
	procuring entities that deal with procurement of classified nature to manage their procurements and disposals on the basis of a dual list maintained by the respective procuring entity. Further, the corporation contravened section 90 (5) of the same act which requires procuring entities that deal with classified items to agree annually with the Cabinet Secretary on the category of items to be included in the classified list of procurements of disposal. Therefore Corporation has breached the law.	dealers of such restricted materials as per the order issued under the EAC Legal Notice No EAC/16/2010 dated 29 June 2010. Contrary to observation, tenders were floated to the approved dealers listed above. An evaluation committee opened, scheduled the tenders and recommended M/S Rainmac Metal Forwarders to be awarded the tender being the highest bidder. In this regard, the Corporation realized revenue commensurate with the quantity disposed having competitively awarded the highest bidder.			
7.0	**<u>Non Maintenance of an Imprest Control System</u>** Included in the cash and bank balances of Kshs.169,242,724 shown in the statement of financial position for the year ended 30 June 2016 is cash-in – hand balance of Kshs.1,253,721 out of which an amount of Kshs.938,712.40 relates to unsurrendered imprests. Examination of the corporations records	During the period under review, the Corporation was not operating an imprest system as observed and the system which was in use petty cash payment vouchers. This FY 2016/17, the management has adopted an imprest system where an imprest warrant is issued and approved before it is paid out. This can be verified during your scheduled audit.	Finance Manager	Resolved	30 Jun 2017

Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
	revealed that the corporation does not maintain and imprest register or operate and imprest control system where imprests are issued vide imprest warrants approved by the relevant section heads prior to issue. However, the imprest are expensed by the raising of petty cash payment vouchers which are charged to various expenditure heads contrary to Section 152.3 of Public Finance Management(PFM) Act,2012 and Government Financial Regulations. In the event of the imprest holder failing to account for or surrender the imprest on the due date, the Accounting Officer is required to take immediate action to recover the full amount from the salary of the defaulting officer. Consequently, the Corporation has breached the law and the propriety of imprest totalling of Kshs.938, 712.40 outstanding as at 30 June 2016 cannot be ascertained.				
8.0	**Cash and Bank Balances** As reported in the previous year, the	The adjustment made in respect of un-presented cheques, details on these	Finance Manager	Resolved	30 Jun 2017

Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
	cash and bank balance of Kshs.9,096,996 as at 30 June 2014 included bank balance of Kshs.6,484,965 which was arrived at after adjustment of Kshs.39,823,799. However, details on the adjustment were not provided for audit review. Although the management has explained that the adjustment was made in respect of un-presented cheques, details on these cheques were not availed for audit verification. Consequently, the validity and accuracy of the adjustment and subsequent balances affected could not be confirmed.	cheques plus all corresponding entries shall be availed for audit review.			
9.0	**Cash Book Maintenance** Review of the corporation's cash and bank records revealed that the cash books maintained for the five (5) bank accounts were not reviewed at the close of each business day and neither were the balances carried down at the end of every month. Both the debit and credit entries had a running balance up to the	The Corporation maintains (5) five bank accounts which the debit and credit entries including the balances are carried down and checked at the end of each month contrary to being checked and verified by a senior officer on daily basis. In order to comply with the Government Financial Regulation Section 5.9.1 and in line with your recommendations, all the bank	Finance Manager	Resolved	30 Jun 2017

Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
	of the financial period contrary to section 5.9.1 of the Government Financial Regulations and procedures which requires cash books to be balanced daily. The regulations, in addition, require that the cash-in –hand be checked and verified by a senior officer daily by signing the cash book at the last entry to signify that the cash book entries of the day were checked. In the circumstances. The validity and accuracy of the cash and bank balances of Kshs.169, 242,794 as at 30 June 2016 could not be confirmed.	accounts cash books currently are being checked and verified on daily basis by the Chief Finance Officer and an Internal Auditor on weekly basis.			
10.0	**<u>Unsupported Fair Value Gain on Biological Assets</u>** The statement of financial performance for the year ended 30 June 2016 reflect fair value gain on biological assets of Kshs.19,946,090 as further disclosed in Note 8 to the financial statements. However, the workings and supporting documents relating to the balance were not availed for audit review.	Reference to IPSAS 27 on Agriculture Para 13 which states that an entity shall recognize a biological asset or agricultural produce when and only when - The entity controls the assets as a result of past events - It is Probable that future economic benefits or service potential associated with the asset will flow	Finance Manager	Resolved	30 Jun 2017

Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
	Consequently, the accuracy and completeness of fair value gain balance of Kshs.19,946,090 imputed on biological assets during the year under review cannot be confirmed.	to the entity and - The fair value or cost of the assets can be measured reliably. Para 16 states that a biological stock shall be measured on initial recognition and at each reporting date at its fair value less cost of sell, except for the case described in paragraph 34 where the fair value cannot be measured reliably. In this regard Note 8 of the financial statements disclosed the workings which are as per IPSAS 27 and therefore we are requesting for a review of the position in respect to the observation.			
11.0	**<u>Unauthorized Administrative Expenses</u>** Included in the administrative expenses balance of Kshs.392,344,960,as further disclosed in Note (9) to the financial statements, is bakery consumables expenditure of Kshs.46,280,082 against approved budgeted of Kshs.45,366,763 resulting in unauthorized expenditure of Kshs.913,319	The expenditure on Bakery Consumables during FY 2015/16 Ksh 46,280,082.00 against the budgeted amount of Ksh 45,280,082.00 which is an over expenditure by Ksh 913,313.00. The over expenditure is attributed to buying of consumables to cater for the increased bread products requirements by Recruit Training School and National Youth Service which had not been projected for	Procurement Manager	Resolved	30 Jun 2017

Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
		in the approved budget for the year. To comply with section 5.515(c) budget re-allocations was done by allocating additional funds to take care of the new additional requirements. The budget re-allocation was approved.			
	Also, included in the administrative expenses balance of Kshs.392,344,960 is bottling consumables expenditure of Kshs.27,474,996 against the approved budgeted amount of Kshs.22,834,380 leading to unauthorized expenditure of Kshs.4,640,616 contrary to Section 5.5.15(c) (ii) of the Government financial regulations and procedures which stipulates that the officer in charge of the Vote book control section shall at all times ensure that there exists a budget allocation to meet expenditure of each payment required and that the allocation has not and will not be exceeded as a result of the payment.	Expenditure of Ksh 27,474,996 as included in the administrative balance of Ksh 392,346,960.00. The over expenditure of Ksh 4,640,616 against the approved budget is due to the increase in assorted bottles prices which was sourced competitively after considering their superior qualities and user specifications better than the initial supplier. In addition, the initial supplier (Dynaplast Ltd) required advance payment for any supply which is contrary to procurement regulations hence the Corporation had to engage a supplier who can accept Local Purchase Orders and with flexible payment terms depending on cash flow.			
	Consequently, the Corporation breached	To comply with section 5.515(c) budget re-allocations was done by allocating			

Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
	the law and the propriety of the total excess administrative expenses expenditure of Kshs.5,553,935 incurred during the year under review cannot be confirmed	additional funds to take care of the price variations. The budget re-allocation was approved.			
12.0	**<u>Inaccurate Computation of Depreciation Charge</u>** Note 11 to the Corporation's financial statements reflects total depreciation for the year of Kshs.111,212,652 which includes computers depreciation charge of Kshs.596,493 that is at variance with the computed figure of Kshs 8,038,371 resulting in an unexplained variance of Kshs 7,441,878 as shown below Consequently, the accuracy and completeness of depreciation charge of 111,212,652 for the year ended 30 June cannot be confirmed.	The variance of Ksh 7,441,877.70 will be adjusted in the subsequent Financial Year 2016/17 financial statements.	Finance Manager	Resolved	30 Jun 2017

Managing Director

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RECORDINGS OF TRANSFERS FROM OTHER GOVERNMENT ENTITIE

Confirmation of amounts received by Kenya Ordinance Factory Corporation as at 30th June 2017							
		Amounts Disbursed by Ministry of Defence as at 30th June 2017				Amount Received by KOFC as at 30 June 2017 (KShs) (E)	Difference (KShs) (F)=(D-E)
Reference Number	Date Disbursed	Recurrent (KShs) (A)	Development (KShs) (B)	Inter – Ministerial (KShs) (C)	Total (KShs) (D)=(A+B+C)		
00346	09.08.2016	135,000,000.00	-	-	135,000,000.00	135,000,000.00	-
Payroll	July	14,016,670.70	-	-	14,016,670.70	14,016,670.70	-
Payroll	August	15,033,120.20	-	-	15,033,120.20	15,033,120.20	-
Payroll	September	14,834,389.30	-	-	14,834,389.30	14,834,389.30	-
Payroll	October	14,701,179.15	-	-	14,701,179.15	14,701,179.15	-
Payroll	November	14,748,900.85	-	-	14,748,900.85	14,748,900.85	-
Payroll	December	14,709,113.90	-	-	14,709,113.90	14,709,113.90	-
Payroll	January	14,332,355.30	-	-	14,332,355.30	14,332,355.30	-
Payroll	February	15,005,229.30	-	-	15,005,229.30	15,005,229.30	-
Payroll	March	15,123,154.00	-	-	15,123,154.00	15,123,154.00	-
Payroll	April	15,313,890.90	-	-	15,313,890.90	15,313,890.90	-
Payroll	May	15,290,516.10	-	-	15,290,516.10	15,290,516.10	-
Payroll	June	15,575,897.10	-	-	15,575,897.10	15,575,897.10	-
	30.05.2017	0.00	40,000,000.00	-	40,000,000.00	40,000,000.00	-
	15.06.2017	17,500,000.00	-		17,500,000.00	17,500,000.00	-
		23,661,494.00			23,661,494.00	23,661,494.00	
Total		**354,845,910.80**	**40,000,000.00**	-	**394,845,910.80**	**394,845,910.80**	-

I confirm that the amounts shown above are correct as of the date indicated.
Head of Accounts Department:
Name ______________________ **Signature** ______________________
Date ______________________