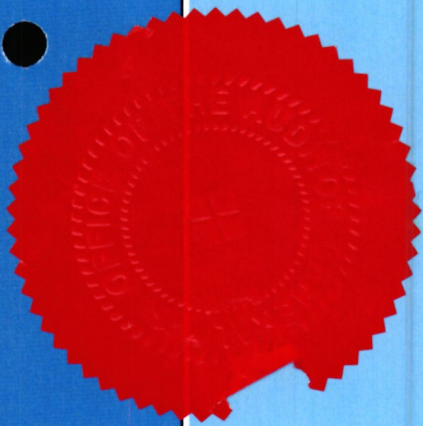




Enhancing Accountability



THE NATIONAL ASSEMBLY	
P. 15 NOV 2022	
DATE:	DAY: Tuesday
TABLED BY:	Hon. Silvanus Osiro, MP Chief Whip Majority
CLERK AT THE TABLE:	Halima Suliman

REPORT DATE: 15 NOV 2022

PARLIAMENT
OF KENYA
LIBRARY

OF

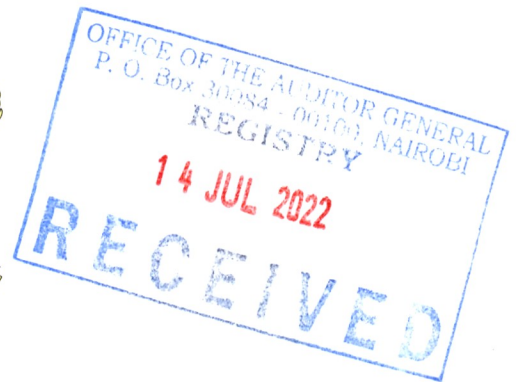
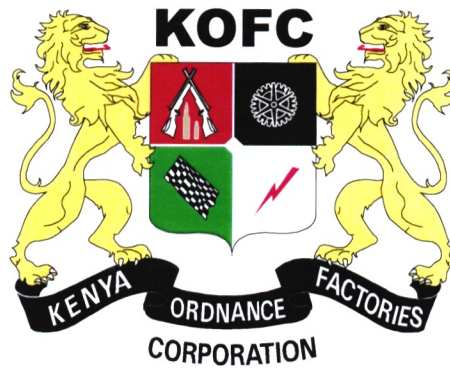
THE AUDITOR-GENERAL

ON

**KENYA ORDNANCE FACTORIES
CORPORATION**

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

CONFIDENTIAL



**REGULATORY AND NON – COMMERCIAL
ENTITY**

**KENYA ORDNANCE
FACTORIES CORPORATION**

**ANNUAL REPORT AND
FINANCIAL STATEMENTS**

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

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

CONFIDENTIAL

KENYA ORDNANCE FACTORIES CORPORATION
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

<u>TABLE OF CONTENTS</u>	<u>PAGE</u>
KEY ENTITY INFORMATION AND MANAGEMENT	ii
THE BOARD OF DIRECTORS	iv
MANAGEMENT TEAM	vii
REPORT OF THE CHAIRMAN AND MANAGING DIRECTOR	xi
CORPORATE GOVERNANCE STATEMENT	xiii
MANAGEMENT DISCUSSION AND ANALYSIS	xviii
ENVIROMENTAL AND SUSTAINABILITY REPORTING	xxii
REPORT OF DIRECTORS	xxi
STATEMENT OF DIRECTORS RESPONSIBILITIES	xxxii
REPORT OF INDEPENDENT AUDITOR FOR THE FINANCIAL STATEMENTS OF KENYA ORDNANCE FACTORIES CORPORATION	xxxiii
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2021	1
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021	2
STATEMENT OF CHANGES IN NET ASSETS	3
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021	4
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2021	5 - 8
NOTES TO THE FINANCIAL STATEMENTS	9 - 38
PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATION	39 - 48
RECORDINGS OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES	49 - 50

1. KEY ENTITY INFORMATION AND MANAGEMENT

a. Background Information

Incorporation

The Kenya Ordnance Factories Corporation (KOFC) was established as a State Corporation in July 1997. The Corporation was exempted from the provision of the State Corporation Act (CAP 446) vide the legal Notice No. 522 of the 28th October 1997. However, no gazettelement 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.

b. Principal Activities

The Corporation principle activities are to:

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

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

Mandate

The mandate of the Corporation is to:

- f. Manufacture Military Hardware, Machinery and equipment
- g. Produce defense articles
- h. Manufacture apparels
- i. Assemble and manufacture motor vehicles
- j. Construct roads, water pans, buildings and other structures and carry out food processing.

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

Vision

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

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

Mission

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

Objectives

KOFC has established its objectives as follows;

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

Iso Certification

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

c. Key Management

The Kenya Ordnance Factories Corporation day to day management is under the following key organs:

- i. Board of Directors
- ii. Managing Director
- iii. Management and
- iv. Special administrative units

d. Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2021 and who had direct fiduciary responsibility were:

No.	Designation	Name
i.	Managing Director	Maj Gen S M Manambo
ii.	General Manager	Col M N Mwangi (Now Brig)
iii.	Legal Advisor	Brig M N Odeny
iv.	Procurement Manager	Lt Col CPA Nyongo
v.	Human Resources and Administration Manager	Lt Col J G Gata
vi.	Maintenance Manager	Lt Col H Kiprotich
vii.	Production Manager	Lt Col S Kipkokei
viii.	General Manager Operations - FPF	Lt Col V Mburu (Now Col)
ix.	General Manager Finance and Administration - FPF	Lt Col Nganga
x.	Thika Plant Manager	Maj Mutiso
xi.	Quality Assurance Manager	Eng Leo K Kerich
xii.	Commercial Services Manager	M/s M N Ochola
xiii.	Farm Manager	Mr M N Njogu

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

xiv.	Finance Manager	Mr D K Towett
xv.	Ag Security and Safety Manager	Maj W N Micha
xvi.	Production Manager - FPF	Maj N S Okaka
xvii.	Maintenance Manager - FPF	Maj A N Alumasa
xviii.	Quality Assurance Manager - FPF	Maj J O Ochieng
xix.	Plant Manager – Gilgil Bakery	Capt B N Osumo
xx.	Plant Manager – MAB Bakery	Capt F N Kwemboi

e. Fiduciary Oversight Arrangements

Board Committees

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; Audit and Risk Committee, Information Technology Committee and Finance and Strategic Committee.

The roles of the above Board committees are as below:

Audit and Risk Committee:

- i. Reviewing quarterly, half-year and annual financial statements before submission to the Board of Directors;
- ii. Assessing the qualifications and recommending engagement of external auditors and their audit fees;
- iii. Reviewing the performance, objectivity and independence of external auditors,
- iv. Consideration of audit findings by the external auditors,
- v. Monitor and review the effectiveness of the Corporation’s internal audit function,
- vi. Reviewing the Company’s internal control and risk management systems and
- vii. Ensuring adherence to the Code of Ethics and Integrity in financial transactions of the Corporation.

Finance, Strategic and General Purpose Committee:

- i. Advising the Board of Directors on strategies to enhance performance of the Corporation,
- ii. Reviewing the five-year Corporate Strategic Plan, corporate budget and overseeing the annual implementation of the Corporation’s strategy,
- iii. Monitoring major projects under implementation, directing strategies for improving customer service,

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

- iv. Overseeing the Corporation's financial management,
- v. Human resource policies and corporate organizational structure,
- vi. Appointment, promotion and disciplinary issues of senior staff,
- vii. Remuneration structure for the staff,
- viii. Reviewing performance of the staff pension scheme,
- ix. Reviewing the organizational structure,
- x. Aligning of Human Resource initiatives and actions to support business and
- xi. Disciplinary issues involving senior management staff.

Information Technology Committee:

- i. Reviewing the Company's Information Communication and Technology (ICT) policy,
- ii. Evaluating ICT security issues and internal controls,
- iii. Ensuring adoption of ICT systems that support Corporation business,
- iv. Minimize risks and achieve maximum benefits from the investments.

f. Registered Office and Principal Place of Business

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

g. Contacts

Email: fm@kofcc.co.ke, info@kofcc.co.ke
Website: www.kofcc.co.ke
[Tel:+254 722 209639](tel:+254722209639) and [+254 773 589 481](tel:+254773589481)

h. 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

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

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

i. Independent Auditors

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

j. Principle Legal Adviser

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

2. BOARD OF DIRECTORS

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



General R K Kibochi
Chairman



Lt Gen W R Koipaton
Director



Maj Gen F O Ogolla
Director (Now Lt Gen)



Maj Gen J L Mutai
Director



Dr Ibrahim M Mohammed
Principal Secretary MoD



Maj Gen (Rtd) M O Oyugi
Director



Maj Gen (Rtd) P O Awitta
Director



Maj Gen (Rtd) H Tangai
Director



Mr S M Macharia
Alternate Director
National Treasury



Dr Julius Muia
PS National Treasury

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021



Maj Gen S M Manambo
Managing Director

Directors who left during the year were:

3. MANAGEMENT TEAM

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



Maj Gen S M Manambo
Managing Director



Brig D O Odeny
Legal Advisor



Col M N Mwangi
General Manager (Now Brig)



Lt Col C P A Nyongo
Procurement Manager



Lt Col J G Gata
Human Resources and
Administration Manager



Lt Col H Kiprotich
Maintenance Manager



Lt Col S Kipkokei
Production Manager



Lt Col V Mburu
General Manager Operations
FPF (Now Col)



Lt Col S M Nganga
General Manager Finance
FPF

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021



Maj D N Mutiso
Thika Plant Manager



Mr L K Kerich
Quality Assurance Manager



Ms M N Ochola
Commercial Services
Manager/Corporation Secretary



Mr. M N Njogu
Farm Manager



Mr. D K Towett
Finance Manager



Maj W N Micha
Ag Security and Safety Manager



Maj N S Okaka
Production Manager -FPF



Maj A M Alumasa
Maintenance Manager – FPF



Maj J O Ochieng
Quality Assurance
Manager- FPF



Capt B N Osumo
Plant Manager-Gilgil Bakery
(Now Maj)



Capt F N Kwemboi
Plant Manager-MAB
Bakery

KENYA ORDANANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

Managers who left during the year were:

Maj Gen Ngewa Mukala	From 6 th May 2019 to 9 th May 2020
Lt Col G R sakora (Now Col)	From 6 th may 2019 to 30 th April 2020
Lt Col S M Kithuva (Now Col)	From 12 th November 2017 to 20 th May 2020
Lt Col J M Mwasaru	From 16 th March 2017 to 10 th November 2020
Maj D K Nyakamoro	From 16 th March 2017 to 10 th November 2020

4. CHAIRMAN'S STATEMENT

I have great pleasure in presenting the Annual Report and Audited Accounts for the Kenya Ordnance Factories Corporation (KOFC) for the financial year 2020/2021. While our core mandate is to produce Ammunition from basic raw materials for self-sufficiency and reliance, over the years it has partially managed to meet Government of Kenya (GOK) security agencies requirements. KOFC plays a vital/strategic role being a stable source of ammunition and food that our troops and indeed the Kenya Defence Forces (KDF) are 'Mission Ready'. Besides, KOFC's participation in Manufacturing and National Food and Nutrition Security Programmes, demonstrates our commitments and contribution to the Big Four Agenda.

The year 2020/2021 will be remembered as a truly unprecedented one with the Covid-19 pandemic ravaging countries across the globe. The pandemic was more than just a health crisis - its impact was felt across economic and societal fronts – with African economies left exposed as a result of declining domestic activities, as travel and trade restrictions became the norm in the year 2020 and 2021. The year under review was however a challenging period for the Corporation. Various factors affected our operating environment adversely and overshadowed the positive developments on its operations. Expression of dissatisfied customers due to challenges in product supply attributed to production supply.

Despite the Pandemic, the Board of Directors continued to be committed in providing effective leadership in steering the Corporation towards achieving greater heights of prosperity. Every challenge presents an opportunity therefore, and this is the time to strengthen our foundations and purpose to meet the expectations of our stakeholders. Taking advantage of our market presence, knowledge workforce, quality products, I am confident that KOFC will be able to meet all security agencies product requirements.

Therefore, as we go forward to the new financial year, we remain positive that products delivery through confidence gained over the years will keep an upward trend despite the challenges. In view of the prevailing circumstances during the period under review, our trading performance and production presented was short of our expectations. We shall continue to accomplish what we set out to do, move quickly and easily to take advantage of new opportunities, venture into uncharted territories, offer quality products and services which has been our destination, continuously introduce new products for security agencies in line with the Vision 30, Big 'Four Agenda and the developed National Security Policy. This will encourage staff to take calculated risks and launch

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

products that resonates with the target customer. Looking ahead we see great opportunities for sustained growth. One of our goals is to transform KOFC into a truly agile Corporation.

Going forward, we will continue to protect our people, support our plans to emerge stronger and redouble our efforts to grow operations in line with the National Security Industrialization policy. We intend to achieve these through rebuilding our capability, taking advantage of our projected investments in capacity expansion. The Board and management will continue to work together to strengthen the Corporation's internal controls and risk management, promote a culture of integrity and strive for the highest ethical business standards. The Board is also committed to providing effective leadership in steering KOFC to greater heights and prosperity. Our concerted efforts will certainly improve product delivery to our customers. As the Chairman of the Board, I am committed to providing leadership that espouses principles of good governance.

In conclusion, while the Corporation continues to leverage on the strength and breadth of our portfolio to deliver sustainable stakeholders return, we remain cautiously optimistic given the macro-economic headwinds post the Covid-19 outbreak. Our business model and strategy are resilient to ensure sustainability of the business in the medium to long term. We are staying the strategic course while implementing a comprehensive action plan to mitigate costs and tightly manage operations. We shall invest in new capabilities to better connect with our customers, enabling us to provide broader and better options to security agencies while leveraging on technology to reach them on various platforms.

On behalf of the Board of Directors, I would like to recognize our customers, consumers, business partners as well as the governments of the respective countries we partner with for your continued support. We also wish to thank our management and employees for their continued agility and resilience through the crisis. They have demonstrated deep commitment to this course, and I have no doubt that, with their continued efforts, we will emerge stronger and successful in the long run. I would also like to sincerely thank my fellow Board members for their counsel, support and dedication throughout the year and for delivering strongly.

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

Thank you.

GENERAL R K KIBOCHI EGH, CBS 'ndc' (K) 'psc' (UK)
Chairman, Board of Directors

5. REPORT OF MANAGING DIRECTOR

The year 2020/2021 was characterized by tough economic environment due to the continued lock down measures imposed by the Head of State to curb the spread of Covid – 19 virus. This had a negative impact on the Corporation which resulted to decreased production and supplies during the year. The Covid – 19 Pandemic crisis challenged us to innovate new and safe ways of doing business. For our employees, business partners, stakeholders and even the communities that we operate in, the priority was and remains Health. Being an industrial outfit, we had to have a significant number of employees operating on site. Consequently, we had to incorporate safety measures, including compliance with mandated protocols by the Ministry of Health. All operations to logistics had to comply with stipulated containment measures in order to protect all that were involved. We continue to meet customers’ needs while always prioritizing the health and safety of our staff and customers.

Kenya Ordnance Factories Corporation is a strategic installation that plays a key role in enhancing National Security and contributes significantly to the Big Four Agenda especially in Manufacturing and National Food and Nutrition Security. The management has been concentrating in operations in Eldoret and also Gilgil. Efforts are being made to address issues of the Food Processing Factory to make itself sustaining that does not depend on the Ministry of Defence for financial support.

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

Despite the many challenges now inherent in this operating environment, the Corporation continued to discharge its mandate to manufacture Military Hardware, Machinery and Equipment and engaging in other activities normally connected with the incidental to the said object. In the year 2020/2021, the Corporation generated revenue from goods and services amounting to KShs 1,092,675,812.34

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

compared to the previous year 2019/2020 generation of KShs 1,032,324,511.00. The funds have gone a long way in funding both budgeted recurrent and capital expenditure.

The National Treasury and Planning through the Ministry of Defence in financial year 2020/2021 allocated the Corporation a recurrent and capitation grant of **KShs 181,800,000.00** and **KShs 100,000,000.00** both totalling to **KShs 281,800,000.00**. The recurrent grant of **KShs 135,000,000.00** was to supplement the FY 2020/2021 approved budget and the balance of **KShs 46,800,000.00** was for the payment of long outstanding pending bills incurred by the Food Processing Factory at Gilgil during its operationalization and commissioning by the Head of State. The **KShs 100,000,000.00** is for the funding of the ongoing farm mechanization program in line with the Big Four Agenda.


The Corporation farming business expanded in terms of acreage. The need for higher yields is necessitated by the fact that the Corporation must meet the Kenya Defence Forces and other Security Forces requirements. Consequently, there was need for self-reliance in modern farm machinery to ensure timely and quality operations. In 2018 crop season, the Corporation acquired modern farm implements which have enabled reduction in cost of land preparation. The acquisition of these farm implement is through a farm mechanization program funded by the National Treasury and Planning as indicated in the above paragraph.

During the year under review, the Corporation had all the Board of Directors on Board and therefore there was full quorum in all meetings. The Board of Directors with the support of the Managing Director and the entire management team, were able to continue running KOFCs operations successfully despite the challenges. The KOFC management is continuing with the execution of FY 2015/16 – FY 2024/25 revised strategic plan aimed at turning around the operations of the Corporation. To sustain our growth, and continue supporting the Security Agencies requirements, concerted efforts are being put in place to address production issues relating to the existing production line. With our well-equipped workforce coupled with higher capacity production line, KOFC is well positioned to deliver on purpose and continue to fully and competitively provide the security agencies. The management is confident that this plan will assure strategic growth and improved returns and profits.

I conclude by sincerely thanking all those who supported the Corporation in financial year 2020/2021 including the customers, the Government of Kenya represented by the Ministry of

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

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



MAJOR GENERAL M K ONG'OYI CBS, 'ndc' 'psc' (K)

Managing Director

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

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

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

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

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

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

Objective 1. Increase Capacity in Production of Arms and Ammunition

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

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

	Stock of Raw Materials	procured Brass, Primers, Powder and Copper Clad	and Copper Clad		
--	------------------------	-------------------------------------------------	-----------------	--	--

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

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

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

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

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

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

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

7. CORPORATE GOVERNANCE STATEMENT

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

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

Board of Directors

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

Board Operations

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

Board Charter

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

Board of Directors Responsibilities

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

- a. Provide effective leadership and collaborate with the Management in articulating the institution's values, vision, mission and strategies and developing the strategic plan and ordering strategic priorities of the Corporation that are sustainable.
- b. Develop an organizational structure to support the achievement of strategic objectives; monitor the operational performance and establish policies and processes that ensure the integrity of the Corporation internal controls and risk management.
- c. Review and approve the business plans and annual budget proposed by the Executive Management and evaluate the outcomes thereof.
- d. Establish such Committees, Policies and Procedures that will facilitate effective discharge of the Board's fiduciary and leadership functions.
- e. Establish and oversee the Corporation corporate governance framework that promotes standards of ethical behaviour.
- f. Ensure the Corporation's compliance with all applicable laws, regulations, governance codes, guidelines and regulations and establish systems to effectively monitor and control compliance across the Corporation.
- g. Ensure that systems and procedures are in place for the Corporation to run effectively and efficiently.
- h. Establish appropriate staffing and remuneration policies for all employees. Act in the best interest of the Corporation and its business taking into consideration the interest of the stakeholders.

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

Board Meetings

The Board has a schedule of its meetings and the agenda for each Board meeting is prepared and circulated to members at least seven (7) days in advance. Board meetings are held every quarter and in exceptional circumstances as dictated by requirements of its operations. Meetings are structured in a way that allows for open discussions. During the year ended 30th June 2021, a total of three (3) Board meetings were held.

Board Skills and Diversity

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

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

Board Induction and Development

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

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

Board Evaluation

In line with the provisions of the Mwongozo Code, the Board reviews its performance and that of its Committees, and the Directors, the Chairman and Company Secretary, on an annual basis. The

Evaluation is facilitated internally once every two years. The evaluation is conducted by each Director completing a Board Evaluation Form which is designed to obtain feedback on the Board's performance in key thematic areas. The Evaluation also seeks to identify development opportunities and areas of improvement. Results are collated confidentially by the Company Secretary and reviewed by the Chairman. The evaluation ensures that the Board continues to be effective. The last evaluation observed that Board members have a good understanding of the business and receive the information they need to inform decisions.

Board Independence and Conflicts of Interest

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

8. MANAGEMENT DISCUSSIONS AND ANALYSIS

Core Mandate of the Corporation

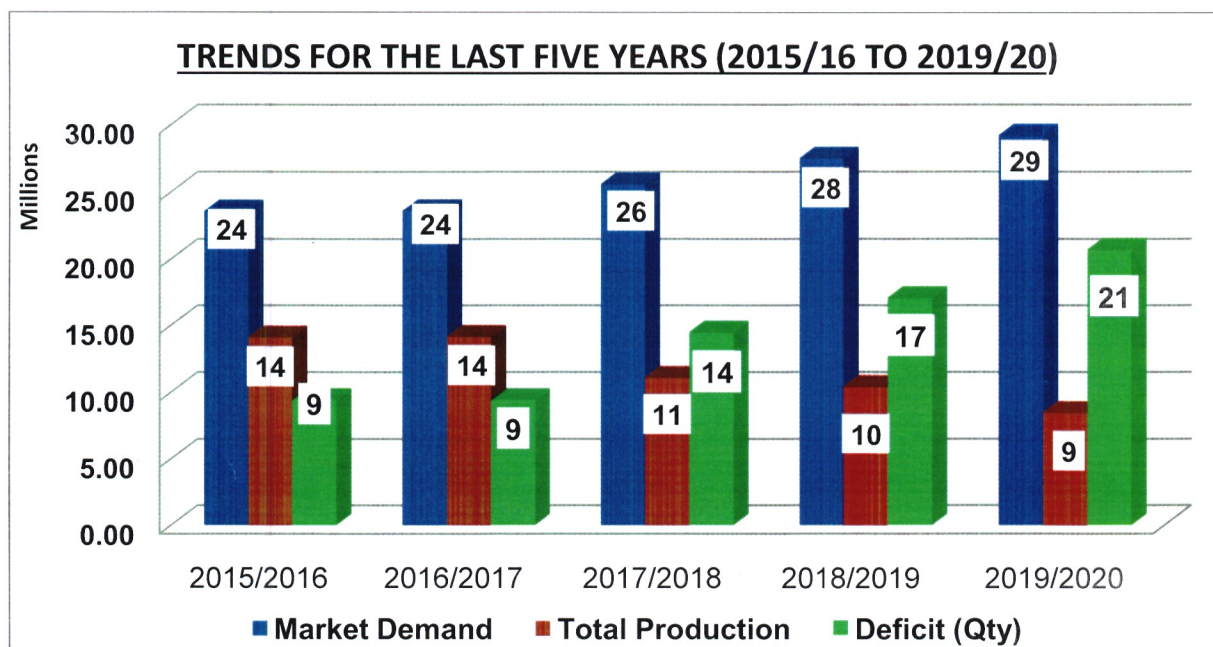
Despite the many challenges inherent in this operating environment, the Corporation continued to discharge its mandate to manufacture Military Hardware, Machinery and Equipment and engaging in other activities normally connected with the incidental to the said object.

Operation

Ammunition Production installed capacity lines were commissioned way back in mid-80's and projected to produce 20 million rounds in a single shift which translated to a production output of quantity 16 million at 80% efficiency. The machines reached their Out of Service Dates (OSD) on attaining 20 years of service in the FY 2016/17. Ammunition production machines have been characterized by frequent breakdowns caused by old age and obsolescence which hampered prompt repairs. Mitigating measures towards addressing these challenges include establishment of new ammunition production lines with high capacities which is currently at an advanced stage.

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

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



Financial Performance

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

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

Years (Audited)				
2019/2020	2018/2019	2017/2018	2016/2017	2015/2016
191,632,846	515,535,062	258,698,444	79,833,447	143,196,851
Deficit	Loss	Loss	Surplus	Surplus

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

Revenue

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

	2019/2020	2018/2019	2017/2018	2016/2017	2015/2016
Ammo	695,835,135	590,915,553	725,760,902	725,285,941	924,977,049
Farm	77,839,634	97,413,266	103,200,106	143,889,250	115,296,300
Others	260,456,244	337,179,757	234,301,130	230,595,493	151,838,318

KShs 1,092,675,812.34 was generated during the year (FY 2020/2021) under review against a set target of **Kshs 1,395,050,722.00** leading to a variance of **Kshs – 302,374,909.66** as detailed below.

S/No	Item Description	Target Amount (KShs)	Achieved Amount (KShs)	Variance (KShs)
1	Security Products	928,200,000.00	651,672,161.00	(276,527,839.00)
2	Bakery sales	141,280,913.00	126,686,916.00	(14,593,997.00)
3	General Engineering and DEFKITCH Sales	15,299,235.00	7,749,110.00	(7,480,125.00)
4	Farm and Milling Sales	132,042,814.00	138,310,537.00	6,267,723.00
5	KDF Bottled Water	79,411,196.00	71,869,692.00	(7,541,504.00)
6	Piped Water Sales	4,664,458.00	4,725,356.34	69,042.14
7	KDF Food Processing Factory	86,900,000.00	88,172,880.00	1,272,880.00
8	Interest Income	6,000,000.00	3,006,893.00	(2,993,107.00)
9	Disposal	1,252,106.00	482,267.00	(769,839.00)
	Total	1,395,050,722.00	1,092,675,812.34	(302,374,909.66)

(a) Staff Welfare and Administrative Activities

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

(b) Major Risks Facing the Corporation

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

(c) Performance Contract Implementation Financial Year 2019/2020

The purpose of the Performance Contracts (PC) is to provide an objective assessment of results realized and challenges experienced by the Corporation that impair performance. The objectives of the Performance Contract (PC) were drawn from the Kenya Ordnance Factories Corporation

Strategic Plan and anchored on the Kenya Vision 2030, the Medium Term Plan (MTP) II) and the Sector Performance Standards (SPS). The Corporations PC FY 2020/2021 was negotiated with the Ministry of Defence, Board of Directors and the Managing Director cascaded it to all relevant implementation departments of the Corporation.

An evaluation of all the projects/activities indicates a composite score of 3.8668 which is rated good.

(d) Capital Projects

Ammunition Production installed capacity lines were commissioned way back in mid-80's and projected to produce 20 million rounds in a single shift which translated to a production output of quantity 16 million at 80% efficiency. The machines reached their Out of Service Date (OSD) on attaining 20 years of service in the FY 2016/17. Ammunition Production Machines have been characterized by frequent breakdowns caused by old age and obsolescence which hampered prompt repairs. Mitigating measures towards addressing these challenges include establishment of modern ammunition production lines with high capacities which is currently at an advanced stage. Acquisition and operationalization of new production lines will in the long run restore KOFC to financial stability and prosperity.

In order to enhance farm production and minimize outsourcing of farm services, the Corporation has continued to invest in farm machinery and equipment. During the year under review, the Ministry of Defence allocated Ksh 100M out of the requested Ksh 500M for KOFC farm mechanization. The funds were utilized to procure quantity two baldan maize planters at Ksh 5,010,984.00, Case IH Axial flow 6140 combine harvester complete with maize and wheat headers at Ksh 34,933,248.00 and a dominator one pass tillage machine at Ksh 8,600,000.00. In addition, the installation of a quantity 3000MT automated grain storage silo is in the initial installation process. In the FY 2021/22, the Ministry of Defence will allocate additional Ksh 200M for completion of the grain silos installation and procurement of additional farm machines and implements.

f. KOFC Compliance with Statutory Requirements

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

g. Material arrears in statutory and other financial obligations

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

9. ENVIROMENTAL AND SUSTAINABILITY REPORTING

i. Sustainability Strategy and Profile

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

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

ii. Environment Performance

Annually, the Corporation plants over quantity 30,000 trees both for Corporate Social Responsibility and planting in its farm blocks. In FY 2020/21, KOFC planted quantity 109,300 seedlings of various species of indigenous trees. This has contributed to the current tree cover of quantity 426.79 acres, which translates to about 5.1 % of the total forest cover.

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

The Corporation is Waste Management Policy deals with issues relating to waste on land, defining all aspects of waste management through industrial processing activities aimed at producing useful

and safe products through; reducing, reusing, recycling, or composting waste; by doing this, it will increase the value of waste over time to the Kenyan economy.

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

Types of Solid Waste Management at KOFC

- a. Hazardous wastes
- b. Industrial wastes
- c. Bio-Medical wastes

Environmental benefits of proper waste management:

- a. Proper waste removal helps improve air and water quality as well as reduces greenhouse gas emissions;
- b. It helps in minimising the extraction of resources along with reducing pollution and energy consumption which is associated with manufacturing new materials;
- c. Promotes health and sanitation;
- d. Reduces pest infestation;
- e. Protects you from biohazards;
- f. Improves community health;
- g. Protects the environment;
- h. Ensures physical safety;
- i. Adds to waste energy;
- j. Earns money.

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

Most sustainable waste management;

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

iii. Employee Welfare:

KOFC Hiring Process and Equity

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

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

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

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

- a. The Corporation will strive to recruit and select the best-qualified candidates to Support its vision and mission.
- b. Equal opportunities shall be provided for all persons throughout the Corporation in recruitment, appointment, promotion, payment, training, and other employment practices without discrimination against people based on race ethnic, gender, disability, national origin, colour, religion, marital status, or political affiliation.

- c. Employees shall be correctly placed on the occupations that match their skills and abilities while taking cognizance of special needs.
- d. Recruitment of Employees shall be done as per the recruitment policy and procedures for all cadres of staff. Equity shall be exercised at all times.
- e. The recruitment and selection process should not take more than six (6) months.
- f. Appointments in all cases are made in accordance with the existing Job Descriptions and specifications for various cadres of staff in their respective fields of employment.

Stakeholder engagements

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

Skills Improvement and Career Management

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

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

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

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

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

Safety and Compliance with Occupational Safety and Health Act 2007

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

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

- b. Supervisors and managers are held accountable for the health and safety of all employees under their supervision. This includes responsibility for applicable training and instruction, appropriate follow-up on reported health and safety concerns, and implementation of recommended corrective action. This accountability is integrated into the performance appraisal system.
- c. Supervisors, workers and visitors are expected to perform their duties and responsibilities in a safe and healthy manner, and are accountable for the health and safety of themselves and others.
- d. KOFC is committed to providing all necessary training and instruction to ensure that appropriate work practices are followed on the job, and to promote their use off the job.
- e. If necessary, KOFC will take disciplinary action where individuals fail to work in a healthy and safe manner, or do not comply with applicable legislation or corporate policies and procedures. Health, safety, the environment and loss control in the workplace are everyone's responsibility.

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

iv. Market Place Practice

Responsible Competition Practice

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

- a. Anticorruption Policy: KOFC ensures that it systematically and comprehensively rewards for more responsible practices in business and penalizes for the converse.
- b. Apolitical involvement: KOFC beings a security installation and does not involve itself to politics; it serves the government of the day.
- c. Fair competition and respect for competitors: KOFC has time and again maintained responsible ethics with their competitors by achieving competitive advantages through superior performance and not through unethical or illegal business practices. It insists on transparency other than making improper agreements with or colluding with competitors. To ensure that it has the competitive edge, it capitalizes on supply of quality products, timely delivery and keeping customer focus as the driving power.

Responsible Supply Chain and Supplier Relations

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

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

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

To build a cordial supplier relationship, the department has;

- a. Effective Communication Channels - The department has effective communication channels where suppliers can be engaged to air out their concerns and feedback given promptly eg Office Emails and Telephone.
- b. Respect – The department demonstrate integrity and appreciate them for the value-add they provide to the organization. This helps to build trust and with that trust comes endless possibilities to increase performance through innovation and problem solving.
- c. Openness and fairness in procurement processes. This includes sharing information including tender results. Suppliers are notifying on the tender results immediately the tendering process is finalized. and demonstrate willingness to work together to achieve the objectives of the agreement.
- d. Payment are done on first come first paid basis.

Responsible Marketing and Advertisement

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

Product Stewardship

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

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

- b. Right to choose: KOFC encourages its clients to be assured of satisfactory quality and service at a fair price.
- c. Right to seek redress: KOFC provides ways for customers to air their complains through the customer care office, suggestion boxes and a customer care remark book, through this their complains are adequately addressed.
- d. Consumer Protection Act: KOFC adheres to Customer Protection Act to ensure good services and relationship between the customer and the corporation.
- e. Right to consumer education: KOFC educates its consumers of its products and services to better equip them with the knowledge to ensure they are sufficiently informed.

v. Corporate Responsibility/Community Engagement

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



10. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2021 which show the state of the Kenya Ordnance Factories Corporation Affairs.

i. Principal Activities

The Corporation principle activities are to:

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

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

ii. Results

The surplus for the year was **KShs. 445,559,893.00**

iii. Directors

The members of the Board of Directors who served during the year are shown at page vii to viii. During the year, there were no retired nor appointed Directors.

iv. Surplus Remission

In accordance with Regulation 219 (2) of the Public Financial Management (National Government) Regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year. The entity did not make any surplus during the year and hence no remittance to the Consolidated Fund.

v. Auditors

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

By the Order of the Board

S N KINGA
Major
Secretary to the Board


.....
Sign

30th March 2022
.....
Date

11. STATEMENT OF DIRECTORS RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of the State Corporations financial statements which give a true and fair view of the state of affairs of the Corporation as at the end of the financial year 2020/2021 ended on June 30, 2021. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which discloses with reasonable accuracy at any time, the financial position of the Corporation; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Corporation; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

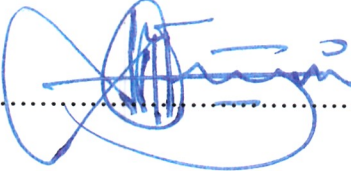
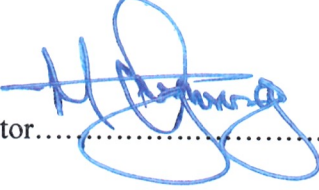
The directors accept responsibility for the Corporation's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgment and estimates, in conformity with International Public Sector Accounting Standards (IPSAS) and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Corporation's financial statements give a true and fair view of the state of the Corporations transactions during the financial year ended June 30, 2021, 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.

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

Approval of the financial statements

The Kenya Ordnance Factories Corporation financial statements were approved by the Board of Directors on.....2021 and signed on its behalf by:

Director..........Managing Director.....

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA ORDNANCE FACTORIES CORPORATION FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the Kenya Ordnance Factories Corporation set out on pages 1 to 48, which comprise of the statement of financial position as at 30 June, 2021 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 the Kenya Ordnance Factories Corporation as at 30 June, 2021, 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 Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unexplained Inconsistencies in the Financial Statements

The statements of financial position as at 30 June, 2021 reflects inventory and biological assets balances of Kshs.678,892,212 and Kshs.164,020,158 respectively all totalling Kshs.842,912,370. However, the stock take report provided for audit reflects a total stock ledger balance of Kshs.16,876,757,566, resulting in unexplained variance of Kshs.16,033,845,196. Further, the stock take report indicates both inventory and biological assets stock ledger and physical balances of Kshs.16,876,757,566 and Kshs.16,934,252,662, respectively. The resulting difference of Kshs.57,495,096 was not reconciled or explained.

In addition, and as disclosed in Note 15 to the financial statements, the inventory balance of Kshs.678,892,212 includes closing work in progress amount of Kshs.97,684,508 which varies from the closing work in progress balance of Kshs.195,369,017 reflected under the manufacturing account under Note 39 to the financial statements. The resultant difference of Kshs.97,684,509 between the two balances was not explained or reconciled.

In the circumstances, the accuracy and completeness of the inventory and biological assets balances of Kshs.678,892,212 and Kshs.164,020,158 respectively included in the financial statements could not be confirmed.

2. Property Plant and Equipment

The statement of financial position reflects a balance of Kshs.10,493,080,779 under property, plant and equipment which, as disclosed in Note 14 to the financial statements, includes an amount of Kshs.7,626,318,000 in respect of land. However, the valuation report provided for audit reflected a value of Kshs.7,627,000,000 in respect of land resulting into a difference of Kshs.682,000 which was not reconciled or explained.

In the circumstances the accuracy and completeness of the land balance of Kshs.7,626,318,000 as at 30 June, 2021 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Ordnance Factories Corporation Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe

that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

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

Other Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.8,465,263,826 and Kshs.1,628,530,258 respectively resulting to an under-funding of Kshs.6,836,733,568 or 81% of the budget. Similarly, the Corporation expended Kshs.1,182,970,365 against an approved budget of Kshs.8,464,450,733 resulting to an under-expenditure of Kshs.7,281,480,368 or 86% of the budget. The revenue underperformance and the under-expenditure may have impacted negatively on the achievement of the planed goals and objectives of the Corporation.

2. Unresolved Prior Year Matters

In the audit report of the financial year 2019/2020, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management had not resolved the issues as at the time of the audit of the accounts for the financial year 2020/2021.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

Outstanding Imprests

The statement of financial position reflects a balance of Kshs.787,323,519 under trade and other receivables which, as disclosed in Note 18(a) to the financial statements, includes current receivables totalling Kshs.630,248,185. The current receivables includes staff debtors totalling Kshs.5,204,392 out of which an amount of Kshs.465,777 relates to outstanding imprests at 30 June, 2021.

However, details of the outstanding imprests issued to various officers were not recorded in the imprest register contrary to the provisions of Regulation 93(4)(c) of the Public

Finance Management (National Government) Regulations, 2015 which requires the Accounting Officer to ensure that details of the applicant for a temporary imprest are entered in the register including the amount applied for.

The Management was therefore in breach of the law.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE.

Conclusion

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

Basis for Conclusion

1. Composition of the Board of Directors and Failure to Hold Meetings

The Board of Directors as currently constituted does not have a Member who is an expert and Member of the accountancy profession as required under Clause 1.1.6 of the governance principles of the Mwongozo Code of Governance for State Corporations. Further, the full Board met only twice on 25 September, 2020 and 11 June, 2021 and the Board Committee Members were not rotated during the financial year under review. This is contrary to the provisions of Circular Ref. No. OP/CAB.9/1A of 11 March, 2020 which requires that the Committees should hold a minimum of four (4) meetings and maximum of six (6) meetings in a financial year. In addition, the Audit Committee met only once on June, 2021 during the financial year 2020/2021.

The Board of Directors was therefore in breach of the provisions of the circular and the Mwongozo Code of Governance for State Corporations.

2. Under-Utilization of Enterprise Resource Planning (ERP) System

During the year under review, the Corporation paid an amount of Kshs.61,480 to a vendor for maintenance of the Enterprise Resource Planning (ERP) System. The vendor was paid an amount of Kshs.1,021,480 for maintenance during the previous year.

The ERP system was installed in 2016 at a cost of Kshs.11,743,560. However, review of the Corporation's operations revealed that the entity relies heavily on manual records in controlling stocks movement and generation of financial reports. Further, the ERP is partially utilized at the Headquarters and has not been implemented in the satellite factories.

In the circumstances, the Corporation may not have obtained value for money from the expenditure of Kshs.11,743,560 incurred on the installation of the computer software system and Kshs.1,082,960 incurred on subsequent maintenance of the ERP system.

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

Responsibilities of Management and the Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective 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 and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the 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 is aware of intention to terminate the Corporation or to cease operations.

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

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

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

Auditor-General's Responsibilities for the Audit

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

reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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


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

of my audit report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

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

I communicate with 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.


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

04 August, 2022

KENYA ORDNANCE FACTORIES CORPORATION
 REPORT AND FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2021

13. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED			
30 JUNE 2021			
		YEAR ENDED	YEAR ENDED
		2020-2021	2019-2020
	NOTE	KSHS	KSHS
SALES	6	651,672,161	695,835,135
COST OF SALES	7	(553,862,160)	(987,898,106)
GROSS		97,810,001	(292,062,971)
TRADING (LOSS)/PROFIT		97,810,001	(292,062,971)
FARM/MILLING INCOME	8	138,310,537	0.00
OTHER INCOME	9	299,686,221	336,489,378
RECURRENT GRANT	10	504,663,849	346,033,739
FAIR VALUE GAIN/(LOSS) ON BIOLOGICAL ASSETS	11	(28,660,243)	(14,338,637)
ADMINISTRATIVE EXPENSES	12	(568,445,365)	(568,697,678)
OTHER OPERATING EXPENSES	12	(812,000)	(812,000)
OPERATING (LOSS)/PROFIT		442,553,000	(53,388,170)
FINANCE (COST)/INCOME	13	3,006,893	1,755,324
WITHHOLDING TAX ON FIXED DEPOSITS		-	-
(LOSS)/PROFIT BEFORE TAX		445,559,893	(191,632,846)
PROFIT/ LOSS AFTER TAX		445,559,893	(191,632,846)

The notes set on pages 9 to 38 form an integral part of these Financial Statements. The Financial Statements set out on pages 1 were signed on behalf of the Board of Directors by:



MAJ GEN M K ONG'OYI
 Managing Director



DANIEL TOWETT
 Finance Manager

30 Mar 2022

Date

30 March 2022

Date


KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

14. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021			
		YEAR ENDED	YEAR ENDED
	NOTES	2020 -2021	2019 -2020
		KSHS	KSHS
NON-CURRENT ASSETS			
PROPERTY PLANT AND EQUIPMENT	14	10,493,080,779	2,911,729,587
		10,493,080,779	2,911,729,587
CURRENT ASSETS			
INVENTORY	15	678,892,212	437,378,410
BIOLOGICAL STOCKS	16	164,020,158	202,039,461
CASH AND BANK BALANCES	17	228,025,118	240,208,810
SHORT TERM INVESTMENT/FIXED DEPOSIT	17 (a)	136,770,559	13,845,636
TRADE AND OTHER RECEIVABLES	18	787,323,519	542,984,239
TAX RECOVERABLE	18	12,859,976	12,859,976
		2,007,891,542	1,449,316,532
TOTAL ASSETS		12,500,972,320	4,361,046,119
EQUITY			
GOVERNMENT INVESTMENT	19	5,211,074,745	5,162,530,513
REVALUATION	20	7,663,988,072	37,670,072
REVENUE RESERVES		(838,220,619)	(1,283,780,512)
		12,036,842,198	3,916,420,073
CURRENT LIABILITIES			
TRADE AND OTHER PAYABLES	21	412,674,354	444,626,046
DEFERRED INCOME	22	51,455,768	-
TOTAL EQUITY AND LIABILITIES		12,500,972,320	4,361,046,119

The Financial Statements were approved by the Board of Directors on and signed on its behalf by:


.....
MAJ GEN M K O'NYI

Managing Director


.....
Date


.....
DANIEL TOWETT

Finance Manager


.....
Date

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

15. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2021

	GOVERNMENT INVESTMENTS	IMPAIRMENT VALUE	REVENUE RESERVE	TOTAL
	KSHS	KSHS	KSHS	KSHS
BALANCE AS AT 1st JULY 2019	5,162,530,513	37,670,072	(1,232,147,666)	3,968,052,919
Net (Loss)/Profit for the Year	-	-	(191,632,846)	(191,632,846)
Adjustment of FY 2011/2012 Grant	-	-	140,000,000	140,000,000
BALANCE AS AT 30th JUNE 2020	5,162,530,513	37,670,513	(1,283,780,512)	3,916,420,073
BALANCE AS AT 1st JULY 2020	5,162,530,513	37,670,513	(1,283,780,512)	3,916,420,073
Net (Loss)/Profit for the Year	-	-	445,559,893	445,559,893
Valuation of KOFC Land	-	7,626,318,000	-	7,626,318,000
Capitation/Conditional Grant	48,544,232	-	-	48,544,232
BALANCE AS AT 30th JUNE 2021	5,211,074,745	7,663,988,072	(838,220,619)	12,036,842,198

Impairment value is in respect to motor vehicles and was done by Automobile Association (AA) in the year 2007 after they were fully depreciated. The Corporation three parcels of land were valued in the year under review by the Ministry of Lands and Physical Planning at fair market rate.

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

16. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021			
	NOTES	YEAR ENDED	YEAR ENDED
		2020 -2021	2019-2020
		KSHS	KSHS
Operating Activities			
(Loss)/Profit before tax		445,559,893	(191,632,846)
Adjustments for:			
Interest Income	13	(3,006,893)	(1,755,324)
Depreciation	23	147,413,940	93,343,936
Increase/Decrease in fair value of Biological Assets		28,660,243	14,338,637
Changes in working capital:			
(Increase)/Decrease in Inventory		(241,513,802)	236,665,062
(Increase)/Decrease in Debtors and prepayments		(244,339,280)	(104,556,631)
Increase/(Decrease) in Creditors and accruals		19,504,076	(62,273,234)
Cash generated from operations		152,278,178	(15,870,400)
Tax paid - (Withholding Tax on Deposits)		126,060	-
Net Cash (used) generated from operating activities		152,404,238	(15,870,400)
Investing activities			
Purchase of fixed assets	24	(93,214,132)	(18,652,914)
Interest received	13	3,006,893	1,755,324
Net cash used for investing activities		(90,207,239)	(16,897,590)
Financing activities			
Government Investment		48,544,232	-
Prior Year Adjustment of Expenses/Liabilities		-	140,000,000
Increase/(Decrease) in cash and cash equivalents		110,741,231	107,232,010
Movement in cash and cash equivalents			
Cash and Cash Equivalent at the beginning of the year		254,054,446	146,822,437
Increase/(Decrease) during the year		110,741,231	107,232,010
Cash and Cash Equivalent as at 30 th June 2021	17	364,795,677	254,054,446

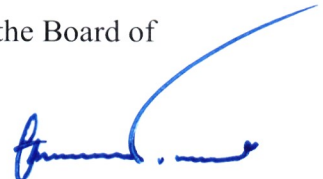
The Financial Statements set out on pages 1 to 4 were signed on behalf of the Board of Directors by:



MAJ GEN MK ONG OYI
Managing Director

30 Mar 2022

Date



DANIEL TOWETT
Finance Manager

30 March 2022

Date



KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

17. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2021.

Revenue/Expenditure	Original Budget	Adjustments	Final Budget	Actual	Performance	Remarks
	(KShs)	(KShs)	(KShs)	Comparable	Difference	
REVENUE STREAM	2020-2021	2020-2021	2020-2021	2020-2021	2020-2021	
(a)	(b)	(c)	(d)	(e)	(f)	(g)
Ammo Sales	928,200,000.00	-	928,200,000.00	651,672,161.00	-276,527,839.00	
Bakery Sales	141,280,913.00	-	141,280,913.00	126,686,916.00	-14,593,997.00	
Farm and Milling	132,042,814.00	-	132,042,814.00	138,310,537.00	6,267,723.00	
Sales of KDF Bottled Water	79,411,196.00	-	79,411,196.00	71,869,692.00	-7,541,504.00	
Sale of DEFKITCH & GE Product	15,299,235.00	-	15,299,235.00	7,749,110.00	-7,550,125.00	
Piped Water Sales	4,664,458.00	-	4,664,458.00	4,725,356.34	60,898.34	
Interest Income	6,000,000.00	-	6,000,000.00	3,006,893.00	-2,993,107.00	
Disposal of General Stores	1,252,106.00	-	1,252,106.00	482,267.00	-769,839.00	
Food Processing Factory - Gilgil	86,900,000.00	-	86,900,000.00	88,172,880.00	1,272,880.00	
NATO and WARSAW Funding	6,200,000,000.00	-	6,200,000,000.00	-	-6,200,000,000.00	
Farm Mechanization - Grant	100,000,000.00	-	100,000,000.00	100,000,000.00	0.00	
KOFC Grant	181,846,022.00	-	181,846,022.00	181,800,000.00	-46,022.00	
Opening Balance	588,367,081.84	-	588,367,081.84	254,054,446.00	-334,312,635.84	
TOTAL REVENUE	8,465,263,825.84	0	8,465,263,825.84	1,628,530,258.34	(6,836,733,567.50)	

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

Revenue/Expenditure	Original Budget (a)	Adjustments (b)	Final Budget (c)	Actual Comparable (d)	Performance Difference (e)	Remarks (f)
Materials for Ammo Production	686,414,155.30		686,414,155.30	220,420,451.33	465,993,703.97	(g)
Carbide and Non-Carbide Tools	37,914,946.70		37,914,946.70	-	37,914,946.70	
Auxiliary Consumables and Chemicals	22,918,232.40		22,918,232.40	17,418,288.95	5,499,943.45	
Chemicals for Water & Effluent Treatment	3,767,510.00		3,767,510.00	1,977,244.50	1,790,265.50	
Purchase of Manuals and Technical Journals	946,000.00		946,000.00	649,740.00	296,260.00	
Transport, Shipping & Insurance of Materials	25,000,000.00		25,000,000.00	-	25,000,000.00	
Machine Maintenance Spares	28,956,165.00		28,956,165.00	12,541,497.96	16,414,667.04	
Repair and Maintenance of Vehicles	17,351,837.00		17,351,837.00	4,726,700.54	12,625,136.46	
Repairs and Maintenance of Buildings	7,360,000.00		7,360,000.00	2,503,070.00	4,856,930.00	
Repairs and Maintenance of Roads	8,213,769.45	-4,500,000.00	3,713,769.45	-	3,713,769.45	
ERP Maintenance	2,000,000.00		2,000,000.00	61,480.00	1,938,520.00	
Repair and Replacement of Fire Hydrant Equipment	3,500,000.00		3,500,000.00	-	3,500,000.00	
DEFKITCH 2012 Fabrication	15,226,316.95		15,226,316.95	4,708,094.00	10,518,222.95	
Auxiliary Parts for Tools Production	10,247,520.00		10,247,520.00	-	10,247,520.00	
Materials for Tools Production	64,600.00		64,600.00	-	64,600.00	
Bank Charges and Commission	4,586,666.80		4,586,666.80	1,897,002.39	2,689,664.41	
Electricity Expenses	38,000,000.00		38,000,000.00	34,840,879.00	3,159,121.00	
Salaries & Allowances (Emoluments)	362,297,544.78		362,297,544.78	255,412,235.30	106,885,309.48	
Petroleum, Oils and Lubricants	23,833,590.00	4,500,000.00	28,333,590.00	27,932,837.00	400,753.00	
Directors Allowances	9,200,000.00	-1,900,000.00	7,300,000.00	2,689,110.00	4,610,890.00	
Travelling and Accommodation	25,000,000.00		25,000,000.00	14,470,539.38	10,529,460.62	
Hospitality & Official Entertainment	2,849,000.00		2,849,000.00	1,345,921.00	1,503,079.00	
Telephone, Internet, Television & Newspapers	3,960,220.00		3,960,220.00	3,753,921.41	206,298.59	

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

Revenue/Expenditure	Original Budget	Adjustments	Final Budget	Actual Comparable	Performance Difference	Remarks
(a)	(b)	(c)	(d)	(e)	(f)	(g)
Postal & Courier Expenses	1,254,000.00		1,254,000.00	-	1,254,000.00	
Purchase of Drugs, Dressing and Medical Examinations	632,500.00		632,500.00	151,764.00	480,736.00	
Purchase of General Stores	5,536,972.00		5,536,972.00	1,620,494.00	3,916,478.00	
Payment of Rent and Rates	2,244,000.00		2,244,000.00	2,371,200.00	(127,200.00)	
Insurance Expenses	27,345,008.00		27,345,008.00	7,043,819.00	20,301,189.00	
Purchase of Office Equipment's and Computer Expenses	6,115,030.00		6,115,030.00	2,293,780.00	3,821,250.00	
Purchase of Domestic and Household Equipment	2,713,692.00		2,713,692.00	184,400.00	2,529,292.00	
Audit, Legal and Consultancy Services	1,386,400.00		1,386,400.00	2,436,000.00	(1,049,600.00)	
Printing and Purchase of Stationery	3,640,248.00		3,640,248.00	2,494,170.00	1,146,078.00	
Environment Conservancy, Water & Sanitation Services	990,000.00		990,000.00	209,296.00	780,704.00	
Purchase of Protective Gear	3,103,134.00		3,103,134.00	1,324,870.00	1,778,264.00	
Purchase of Security and Safety Eq	7,360,000.00		7,360,000.00	45,900.00	7,314,100.00	
Training Expenses	2,800,000.00		2,800,000.00	430,300.00	2,369,700.00	
Tendering and Advertisement	2,000,000.00	600,000.00	2,600,000.00	1,667,328.00	932,672.00	
Clearance, Freight and Charges	20,000,000.00		20,000,000.00	10,244,031.75	9,755,968.25	
Office Equipment's & Computers for Conference Room	6,478,050.00		6,478,050.00	2,252,900.00	4,225,150.00	
Communication Equipment	1,911,400.00		1,911,400.00	107,496.00	1,803,904.00	
Sales and Marketing Expenses	6,626,200.00		6,626,200.00	110,679.00	6,515,521.00	
Bakery Upgrade	22,640,700.00		22,640,700.00	-	22,640,700.00	
Farm Expenses	72,706,020.00		72,706,020.00	67,274,921.00	5,431,099.00	
Bakery Expenses	93,651,589.00		93,651,589.00	80,820,780.22	12,830,808.78	

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

Revenue/Expenditure	Original Budget	Adjustments	Final Budget	Actual Comparable	Performance Difference	Remarks
(a)	(b)	(c)	(d)	(e)	(f)	(g)
Water Bottling Plant Consumables	44,874,874.00		44,874,874.00	27,095,960.06	17,778,913.94	
Bottling Plant Upgrade	17,944,000.00		17,944,000.00	-	17,944,000.00	
Milling Plant Consumables	8,816,200.00	1,300,000.00	10,116,200.00	10,570,928.21	(454,728.21)	
Purchase of Laboratory Equipment	4,465,200.00		4,465,200.00	12,849,450.65	(8,384,250.65)	
Quality Assurance Lab Reagents and Equipment Servicing	3,074,000.00		3,074,000.00	-	3,074,000.00	
Research and Development	20,000,000.00		20,000,000.00	-	20,000,000.00	
Ballistic Analyzer	5,000,000.00	10,000,000.00	15,000,000.00	39,994,730.00	(34,994,730.00)	
Ammo & QA Equipment (Barrels)	500,000.00		500,000.00	-	500,000.00	
Climatic Test Chamber	10,000,000.00		10,000,000.00	-	10,000,000.00	
ISO Transition from 2008 to 2015	5,385,000.00		5,385,000.00	217,800.00	5,167,200.00	
FPF (KDF) Gilgil	125,877,024.00		125,877,024.00	83,874,179.99	42,002,844.01	
Farm Mechanization - Machinery	100,000,000.00		100,000,000.00	48,544,232.00	51,455,768.00	
CNC Engraving Machine	500,000.00		500,000.00	-	500,000.00	
Automatic Voltage Regulator	3,000,000.00		3,000,000.00	-	3,000,000.00	
Construction of Military Std Watch Towers	500,000.00		500,000.00	-	500,000.00	
Repair of Rolling Doors Bld 62 & 84	500,000.00		500,000.00	-	500,000.00	
CNC Late Machine	16,000,000.00		16,000,000.00	-	16,000,000.00	
NATO and WARSAW Production Line	6,200,000,000.00		6,200,000,000.00	-	6,200,000,000.00	
Gauging Machine	100,000,000.00		100,000,000.00	18,078,851.00	81,921,149.00	
Pending Bills – FY 2019/2020	167,271,417.61		167,271,417.61	2,252,900.00	165,018,517.61	
Depreciation	-		-	147,413,940.44	(147,413,940.44)	
TOTAL EXPENDITURE	8,464,450,732.99		8,464,450,732.99	1,182,970,365.14	7,454,797,613.13	
SURPLUS (DEFICIT) FOR THE PERIOD FY 2020/2021	813,092.85	-	813,092.85	445,559,893.20	618,064,045.63	

18. NOTES TO THE FINANCIAL STATEMENTS

1. General Information

Kenya Ordnance Factories Corporation is established and derives its authority and accountability 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 Military Hardware, Machinery and Equipment and may engage on incidental activities essential to its object.

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

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards allows use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Kenya Ordnance Factories Corporation accounting policies. The areas involving a higher degree of judgement or complexity, or where assumption and estimates are significant to Financial statements, are disclosed.

The Financial Statements have been prepared and presented in Kenya Shillings, which is functional and reporting currency of the Kenya Ordnance Factories Corporation.

The Financial Statements have been prepared in accordance with PFM Act, the State Corporations Act and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

3. ADOPTION OF NEW AND REVISED STANDARDS

i. Other Improvements to IPSA - IPSAS 13

a. Amendment to IPSAS 13. To include the appropriate references to IPSA on impairment and/or national accounting frameworks.

b. IPSAS 13, Lease and IPSAS 17, Property Plant and Equipment. Amendments to remove transitional provisions which should have been deleted the IPSAS 33, First Time adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS) was approved.

c. IPSA 21, Impairment of Non-Cash – Generating Assets and IPSA, Impairment of Cash Generating Assts. Amendments to ensure consistency of impairment guidance to account for revalued assets in the scope of IPSAS 17, Property Plant and Equipment and IPSAS 31, Intangible Assets.

d. IPSAS 33, First-Time adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs). Amendments to the implementation guidance on deemed cost in IPSAS 33 to make it consistent with core principles in the Standard. The above improvements to IPSAS had no impact to the Financial Statements.

ii. Early adoption of Standards

The Kenya Ordnance Factories Corporation did not early adopt any new or amended standards in year 2021.

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 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.

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 Kenya Ordnance Factories 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.

Dividends: Dividends or similar distribution must be recognized when the shareholder's or the Kenya Ordnance Factories Corporation right to receive payment is established.

Rental Income: Rental income arising from operating leases on investment properties is accounted for on straight-line basis over the lease terms and included in revenue.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Budget information – IPSAS 24

The original budget for FY 2020-2021 was approved by the Board of Directors. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from appropriate authorities. The additional appropriations are added to the original budget by the Kenya Ordnance Factories Corporation upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Kenya Ordnance Factories Corporation did not record additional appropriation during the financial year 2020-2021.

The Kenya Ordnance Factories Corporation budget is prepared on a different basis to the actual income and expenditure disclosed in the Financial Statements. The Financial Statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis and re classified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the difference, adjustments to amounts in the Financial Statements are also made for differences in the format and classification schemes adopted for the presentation of the Financial Statements and approved budget.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A statement to reconcile the actual amounts on comparable basis included in the statement of comparison of budget and actual amounts and the actual as per the statement of financial statements has been presented in this Financial Statement.

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.

c) Taxes (Continued)

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

iii. Public Sector Combinations - IPSAS 40

Public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only). Business combinations and combinations arising from exchange transactions are covered purely under Public Sector combinations and amalgamations. During the year, the Kenya Ordnance did not acquire or bring together separate operations into one public sector entity.

c) Taxes (Continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Fixed assets are stated at historical cost less depreciation.

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%
Land	0.00%

f) Leases: Finance leases are leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Entity. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Entity also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition.

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit.

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Entity will obtain ownership of the asset by the end of

NOTES TO THE FINANCIAL STATEMENTS (Continued)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating leases are those that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Entity. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

g) 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 Kenya Ordnance Factories Corporation can demonstrate.

- a. The technical feasibility of completing the asset so that the asset will be available for use or sale;
- b. Its intention to complete and its ability to use or sell the asset;
- c. How the asset will generate future economic benefits or service potential;
- d. The availability of resources to complete the asset;
- e. The ability to measure reliably the expenditure during development.

g) Research and development costs (Continued)

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i. Financial Instruments

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:

h) Financial instruments – IPSAS 29 (Continued)

I. Financial assets (Continued)

Impairment of financial assets (Continued)

- a. The debtors or a Corporation of debtors are experiencing significant financial difficulty;
- b. Default or delinquency in interest or principal payments;

NOTES TO THE FINANCIAL STATEMENTS (Continued)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- c. The probability that debtors will enter bankruptcy or other financial reorganization;
- d. Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults).

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.

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:

- a. Raw materials: purchase cost using the weighted average cost method
- b. 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

J. Inventories - IPSAS 12 (continued)

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Kenya Ordnance Factories 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.

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. In the year under review, the Corporation in the year under review did not maintain any reserve.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 Kenya Ordnance Factories Corporation regards a related party as a person or an Corporation/institution 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 directors, CEO, 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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2021.

w) 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

5. 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:

- a. The condition of the asset based on the assessment of experts employed by the Corporation;
- b. The nature of the asset, its susceptibility and adaptability to changes in technology and processes;
- c. The nature of the processes in which the asset is deployed;
- d. Availability of funding to replace the asset;
- e. Changes in the market in relation to the asset.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 **NOTES**

expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

6. Sales

Description	2020-2021	2019-2020
	Kshs	Kshs
Assorted Ammunition	651,672,161.00	695,835,135.00
Total Sales	651,672,161.00	695,835,135

7. Cost of Sales

Description	2020-2021	2019-2020
	Kshs	Kshs
Opening Stocks of finished goods	83,392,570.00	188,466,972.00
Production cost of finished goods	805,079,527.00	882,823,704.00
Closing stock of finished goods	(334,609,937.00)	(83,392,570.00)
Cost of Sales	553,862,160.00	987,898,106.00

8. Farm/Milling Income

Description	2020-2021	2019-2020
	Kshs	Kshs
Farm and Milling	138,310,537.00	77,839,634.00
Total Farm Income	138,310,537.00	77,839,634.00

9. Other Income

Description	2020-2021	2019-2020
	Kshs	Kshs
Piped Water	4,725,356.34	4,871,512.10
DEFKITCH 2012- Field Kitchen & GE	7,749,110.00	13,244,296.26
Bottled Water	71,869,692.00	60,568,856.60
Disposal(s)	482,267.00	255,269.00
Bakery Products	126,686,916.00	121,788,456.60
KDF FPF (Dehydrated Vegetables)	88,172,880.00	57,921,353.00
Total Other Income	299,686,221.34	258,649,743.56

10. Transfer from Other Governments (Grant)

Description	2020-2021	2019-2020
	Kshs	Kshs
Unconditional Grant		
Current Year Operation Grant	181,800,000.00	135,000,000.00
Other Grants (Salaries and Allowances)	322,863,848.70	211,033,738.65
Total Unconditional	504,663,848.70	346,033,738.65
Conditional Grants		
Farm Mechanization	100,000,000.00	0.00
Total Government Grant and Subsidies	604,663,848.70	346,033,738.65

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 (b). TRANSFERS FROM MINISTRIES, DEPARTMENTS

Description	2020-2021	2019-2020
	Kshs	Kshs
Unconditional Grant		
Current Operational Grant	181,800,000.00	135,000,000.00
Other Grant	322,863,848.70	211,033,738.65
Conditional Grant		
Ministry of Defence	100,000,000.00	0.00
Total Other Income	604,663,848.70	346,033,738.65

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

Description	2020-2021	2019-2020
	Kshs	Kshs
Fair value at the beginning of the year	202,039,461.00	223,378,097.00
Decrease in Fair value due to harvesting	(47,891,253.00)	(54,891,252.00)
Additional at Cost	38,532,193.00	47,891,253.00
Fair Value gain arising from physical changes	(28,660,243.00)	(14,338,637.00)
Fair Value at the end of the year	164,020,158.00	202,039,461.00

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

- The market conditions remain constant;
- The prevailing climatic conditions will not change;
- 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.

12. Administrative Expenses

Description	2020-2021	2019-2020
	Kshs	Kshs
Motor vehicle running expenses	4,726,700.54	39,983,039.00
Petroleum, Oils and Lubricants	27,932,837.00	-
Travelling and accommodation	14,470,539.00	15,580,378.00
Administration salaries and allowances	173,482,825.00	156,895,597.00
Telephone and Postage	3,753,921.00	4,152,531.00
Computer expenses	2,293,780.00	1,485,900.00
Official Entertainment	1,345,922.00	560,949.00
Directors Fees	2,689,110.00	3,100,638.00
Uniforms	1,324,870.00	1,898,994.00
Printing and Stationery	2,494,170.00	1,855,572.00
Rents and Rates	2,371,200.00	2,281,200.00
General Stores and Replacement of Pumps	1,620,494.00	3,397,346.00
Training	430,300.00	621,125.00

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

Bank charges	1,897,002.00	2,495,250.00
Medical expenses	151,764.00	231,502.00
Electricity	6,968,176.00	6,535,911.00
Depreciation:		
Motor vehicles	8,151,974.00	624,832.00
Buildings and civil works	1,771,583.00	1,767,108.00
Furniture and fittings	254,770.00	63,373.00
Waterline and civil works	953,544.00	953,544.00
Computers	15,941,354.00	903,038.00
Sales, Marketing and Advertising	110,679.00	1,813,172.00
Tendering and Advertising	1,667,328.00	-
Newspapers and periodicals	649,740.00	686,940.00
Domestic and Household Expenses/Office Equipment	285,559.00	399,268.00
Insurance	1,408,764.00	4,593,308.00
Building and Roads maintenance	2,503,070.00	4,279,595.00
Clearing and Transportation Expense	10,244,032.00	7,300,678.00
Audit Fees	2,436,000.00	812,000.00
ISO Certification	217,800.00	161,300.00
Water and Conservancy	209,296.00	183,705.00
Security Expenses	45,900.00	27,500.00
Communication Expenses	107,496.00	199,887.00
Field Kitchen Fabrication	4,708,094.00	6,457,885.00
Farm Expenses	67,274,922.00	72,234,676.00
Bakery Consumables	80,820,780.00	90,802,889.00
Water Bottling Consumables	27,095,960.00	58,507,083.00
Milling Plant Consumables	10,570,928.00	14,449,354.00
KDF FPF Gilgil Expenses	83,874,180.00	61,212,610.00
TOTAL EXPENDITURE	569,257,365.00	569,509,678.00

13. Finance Income – External Investments

Description	2020-2021	2019-2020
	Kshs	Kshs
Cash Investments and Fixed Deposits	3,006,893.00	1,755,324.00
Total Finance Income - External Investments	3,006,893.00	1,755,324.00

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14. Property Plant and Equipment

AS AT 30/06/2021	LAND		BUILDING AND CIVIL WORKS		WATERLINE AND CIVIL WORKS		WORK IN PROGRESS		PLANT EQUIPMENT, MACHINERY		MOTOR VEHICLES		FURNITURE AND FITTINGS		COMPUTERS		TOTAL	
	0%	KSHS	1%	KSHS	1%	KSHS	0%	KSHS	2.5%	KSHS	25%	KSHS	5%	KSHS	30%	KSHS	KSHS	
Depreciation Rate																		
1st JULY 2020	-	883,553,830	476,772,242	198,070,222	3,015,864,528	146,440,489	25,292,634	51,448,169	4,797,442,114									
VALUATION	7,626,318,000	-	-	-	-	-	-	-	7,626,318,000									
ADDITIONS	-	2,237,870	-	-	39,994,730	48,544,232	184,400	2,252,900	93,214,132									
30th JUNE 2021	7,626,318,000	885,791,700	476,772,242	198,070,222	3,055,859,258	194,984,721	25,477,034	53,701,069	12,516,974,246									
DEPRECIATION																		
ACCUMULATED AS AT 01 JULY 2020	-	184,124,879	102,130,108	-	1,410,749,252	125,660,141	17,801,427	45,246,718	1,885,712,527									
CHARGE FOR THE YEAR	-	8,857,917	4,767,722	-	75,813,225	40,759,870	1,273,852	15,941,354	147,413,940									
ACCUMULATED AS AT 30 JUNE 2021	-	192,982,796	106,897,831	-	1,486,562,477	166,420,012	19,075,279	61,188,072	2,033,126,467									
NET BOOK VALUE 30 JUNE 2021	7,626,318,000	692,808,904	369,874,411	198,070,222	1,569,296,781	28,564,709	6,401,755	1,745,997	10,493,080,779									
NET BOOK VALUE 30 JUNE 2020	-	699,428,951	374,642,134	198,070,222	1,605,115,276	20,780,348	7,491,207	6,201,451	2,911,729,587									

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

AS AT 30/06/2020		LAND	BUILDING AND CIVIL WORKS	WATERLINE AND CIVIL WORKS	WORK IN PROGRESS	PLANT EQUIPMENT, MACHINERY	MOTOR VEHICLES	FURNITURE AND FITTINGS	COMPUTERS	TOTAL
COST	Depreciation Rate	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS
1st JULY 2019	0%	-	883,553,830	476,737,242	198,070,222	3,015,864,528	129,815,489	25,075,650	46,672,239	4,778,789,200
CAPITALIZED	-	-	-	-	-	-	-	-	-	-
ADDITIONS	-	-	35,000	-	-	-	16,625,000	216,984	1,775,930	18,652,914
30th JUNE 2020	-	-	883,553,830	476,772,242	198,070,222	3,015,864,528	146,440,489	25,292,634	51,448,169	4,797,442,114
DEPRECIATION										
ACCUMULATED AS AT 01 JULY 2019	-	-	175,289,341	97,362,386	-	1,335,352,639	122,535,983	17,484,562	44,343,680	1,792,368,591
CHARGE FOR THE YEAR	-	-	8,835,538.30	4,767,722.42	-	75,396,613.20	3,124,158.42	316,865.30	903,038.10	93,343,935.74
ACCUMULATED AS AT 30 JUNE 2020	-	-	184,124,879	102,130,108	-	1,410,749,252	125,660,141	17,801,427	45,246,718	1,885,712,526.74
NET BOOK VALUE 30 JUNE 2020	-	-	699,428,951	374,642,134	198,070,222	1,605,115,276	20,780,348	7,491,207	6,201,451	2,911,729,587
NET BOOK VALUE 30 JUNE 2019	-	-	708,264,488	379,374,856	198,070,222	1,680,511,889	7,279,506	7,591,089	5,328,559	2,986,420,609

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. Inventories

Description	2020-2021	2019-2020
	Kshs	Kshs
Raw materials	184,914,528.38	232,436,486.00
Chemicals Oils and Lubricants	46,483,478.12	2,494,753.00
Work in Progress	97,684,508.50	94,704,201.00
Finished goods	334,609,937.00	83,392,570.00
Shelled Maize Stock	13,783,760.00	16,850,400.00
Production Scrap Metal	1,416,000.00	7,500,000.00
Lower of cost Realizable value	678,892,212.00	437,378,410.00

16. Biological Asset

Description	2020-2021	2019-2020
	Kshs	Kshs
Maize	66,585,662.00	87,446,000.00
Assorted Trees	86,184,496.00	104,973,461.00
Pasture	11,250,000.00	9,620,000.00
Total Biological Assets	164,020,158.00	202,039,461.00

17. Cash and Cash Equivalents

Description	2020-2021	2019-2020
	Kshs	Kshs
Current Account	226,671,904.01	237,898,840.20
On Call Deposits - Fixed Deposits	136,770,559.30	13,845,636.42
Cash in Hand	10,940.00	360,013.30
M-Pesa	1,342,273.95	1,949,956.00
Total Cash and Cash Equivalents	364,795,677.26	254,054,445.92

17 (a) Detailed Analysis of The Cash and Cash Equivalents

Description	2020-2021	2019-2020
	Kshs	Kshs
a. Current Account		
Kenya Commercial Bank	66,613,711.80	82,061,506.36
Kenya Commercial Bank Dollar Account	403,908.44	388,835.10
Co-operative Bank of Kenya - Main	131,450,353.29	136,222,265.96
Co-operative Bank of Kenya - Bakery Eldoret	3,366,066.50	17,715,348.60
Co-operative Bank of Kenya - FPF Gilgil	19,738,293.76	53,917.45
Equity Bank	5,012,922.65	1,028,856.23
National Bank	86,647.57	428,110.60
Sub Total	226,671,904.01	237,878,840.20
b. Fixed Deposit Account		
Kenya Commercial Bank	90,281,900.00	9,315,000.00
Co-operative Bank of Kenya	46,488,659.30	4,530,636.42

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

Sub Total	136,770,559.30	13,845,636.42
Others		
Cash in Hand	10,940.00	360,013.30
M-pesa	1,342,273.95	1,949,956.00
Sub Total	1,353,213.95	2,309,969.30
Grand Total	364,795,677.26	254,054,445.92

18 (a). Receivables from Exchange Transactions

Description	2020 - 2021	2019-2020
	Kshs	Kshs
a. Current Receivables		
Ammunition and Service Debtors	536,466,285.15	347,279,672.77
Other Exchange Debtors	4,288,880.80	65,426,462.00
Prepayments	84,288,627.05	0.00
Staff Debtors	5,204,392.00	3,533,533.00
Total Current Receivables	630,248,185.00	416,239,667.77
b. Non-Current Receivables		
Ammunition and Service Debtors	2,394,024.00	12,370,853.00
Other Exchange Debtors	9,010,413.00	2,416,430.00
Prepayments	33,713,609.00	0.00
Claimable Value Added Tax	111,957,288.00	111,957,288.00
Tax Recoverable	12,859,976.00	12,859,976.00
Total Non-Current Receivables	169,935,310.00	139,604,547.00
Total Receivables	800,183,495.00	555,844,215.00

(b) Provision for Doubtful Debts: The recoverability of **Kshs. 124,817,263.64** included under receivables from exchange transactions is doubtful. Although, the Corporation is following up on the long outstanding debts with the Ministry of Defence and Kenya Revenue Authority.

Description	2020-2021	2019-2020
	Kshs	Kshs
Long Outstanding Debt		
Kenya Revenue Authority	12,859,976.00	0.00
Kenya Revenue Authority	43,095,906.64	0.00
Ministry of Defence	68,861,381.00	0.00
Total	124,817,263.64	0.00

19. Government Investment: The Government investment of **Kshs 5,211,074,745.00** 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 additional Capital Investments.

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Description	2020-2021	2019-2020
	Kshs	Kshs
At the beginning of the Year	6,683,154,640.48	6,571,157,790.74
Additions	93,214,132.00	18,652,914.00
Depreciation	147,413,940.00	93,343,935.74
At end of the Year	6,923,782,712.48	6,683,154,640.48

20. Revaluation Surplus: This Value was obtained after valuation of Motor Vehicles after they were fully depreciated and three parcels of land that were valued by Ministry of Lands and Physical Planning. The fair market rate of **Kshs 7,663,988,072.00**.

21. Trade and Other Payables from Exchange Transactions

Description	2020 - 2021	2019 - 2020
	Kshs	Kshs
Payments Received in Advance	277,354,628.00	277,354,628.00
Employee Payables (June 2021 PAYE)	4,053,076.00	0.00
Other Payables	127,564,209.76	160,534,571.39
Contract Retentions	3,702,440.00	6,736,846.22
Total at End of the Year	412,674,353.76	444,626,045.61

22. Deferred Income

Description	2020-2021	2019-2020
	Kshs	Kshs
Ministry of Defence	51,455,768.00	0.00
Total at End of the Year	51,455,768.00	0.00

22 (a) Deferred Income movement is as follows;

Description	2020-2021	2019-2020
	Kshs	Kshs
	National Govt	
Balance Brought Forward	0.00	0.00
Additions	100,000,000.00	0.00
Transfers to Capital Fund	48,544,232.00	0.00
Balance carried forward	51,455,768.00	0.00

23. Depreciation and Amortization Expense

Description	2020-2021	2019-2020
	Kshs	Kshs
Building and Civil Works	8,857,917.00	8,835,538.30
Waterline and Civil Works	4,767,722.42	4,767,722.42
Plant, Equipment and Machinery	75,813,225.00	75,396,613.20
Motor Vehicles	40,759,870.00	3,124,158.42
Furniture and Fittings	1,273,852.00	316,865.30
Computers	15,941,353.70	903,038.10
Total depreciation and amortization	147,413,940.12	93,343,935.74

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24. Purchase of Fixed Assets

Description	2020-2021	2019-2020
	Kshs	Kshs
Building and Civil Works	2,237,870.00	0.00
Work in progress	0.00	0.00
Waterline and Civil Works	0.00	35,000.00
Plant Equipment and Machinery	39,994,730.00	0.00
Motor Vehicles	48,544,232.00	16,625,000.00
Furniture and Fittings	184,400.00	216,984.00
Computers	2,252,900.00	1,775,930.00
Total Purchase of Fixed Assets	93,214,132.00	18,652,914.00

25. Bulk Purchase of electricity

Description	2020-2021	2019-2020
	Kshs	Kshs
Electricity	34,840,878.17	32,679,556.22
Total Purchase of Fixed Assets	34,840,878.17	32,679,556.22

26. 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:

Description	2020-2021	2019-2020
	Kshs	Kshs
Transactions with related parties		
a. Sales to related Parties		
Sale of Goods to the Government Institutions	1,092,675,812.34	844,840,418.26
Total	1,092,675,812.34	844,840,418.26
b. Grants from the Government		
Grant from Ministry of Defence	281,800,000.00	135,000,000.00
Total	281,800,000.00	135,000,000.00
c. Expenses incurred on behalf of KOFC		
Seconded Personnel Salaries and Allowances	322,863,848.70	211,033,738.65
Total	322,863,848.70	211,033,738.65

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. Directors Allowances

Description	2020-2021	2019-2020
	Kshs	Kshs
Chairman's Honoraria	0.00	0.00
Directors Emoluments	2,689,110.00	3,100,637.50
Total Directors Allowances	2,689,110.00	3,100,637.50

28. Contracted Services

Description	2020-2021	2019-2020
	Kshs	Kshs
Consultancy	0.00	0.00
Certifications	217,800.00	161,300.00
Insurance Expenses	7,043,819.33	22,966,541.00
Total contracted services	7,261,619.33	23,127,841.00

29. Cash generated from operations

Description	2020-2021	2019-2020
	Kshs	Kshs
Surplus/Deficit for the year before tax	445,559,893	(191,632,846.00)
Adjusted for:		
Finance Income	(3,006,893)	(1,755,324.00)
Depreciation	147,413,940	93,343,936.00
Increase/Decrease in fair value of biological assets	28,660,243	14,338,637.00
Working Capital adjustment:		
(Increase)/Decrease in Inventory	(241,513,802)	236,665,062.00
(Increase) /Decrease in receivables	(244,339,280)	(104,556,631.00)
Increase/(Decrease) in Creditors and Accruals	19,504,076	(62,273,234.00)
Tax Paid	126,060.00	0.00
Net Cash (used) Flow from Operating Activities	152,404,238.00	(15,870,400.00)

30. Financial Instruments and Risk Management

The Kenya Ordnance Factories Corporation activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The entity's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The entity does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The Kenya Ordnance Factories Corporation financial risk management objectives and policies are detailed below:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the entity's management based on prior experience and their assessment of the current economic environment.

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

Description	Total Amount	Fully Performing	Past Due	Impaired
	Kshs	Kshs	Kshs	Kshs
At 30 June 2021				
Receivables from exchange transactions	675,366,231.00	630,248,185.00	45,118,046.00	0.00
Receivables from non-exchange Transactions	124,817,263.64	0.00	124,817,263.64	0.00
Bank Balances	800,872,754.64	630,248,185.00	0.00	0.00
Total	1,601,056,249.28	630,248,185.00	169,935,309.64	0.00
At 30 June 2020				
Receivables from exchange transactions	359,728,179.77	347,279,672.77	12,448,507.00	0.00
Receivables from non-exchange Transactions	196,193,689.00	68,959,995.00	127,233,694.00	0.00
Bank Balances	254,054,446.00	254,311,452.00	0.00	0.00
Total	809,976,314.77	670,551,119.77	139,682,201.00	0.0

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the entity has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts. The entity has significant concentration of credit risk on amounts due from Kenya Revenue Authority.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The board of directors sets the entity's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

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

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

Description	Total Amount	Fully Performing	Past Due	Impaired
	Kshs	Kshs	Kshs	Kshs
At 30 June 2021				
Trade Payables	408,621,277.86	131,266,649.86	277,354,628.00	0.00
Current Portion of Borrowings	0.00	0.00	0.00	0.00
Provisions				
Deferred Income	51,455,768.00	51,455,768.00	0.00	0.00
Employee Benefit Obligations	4,053,076.00	4,053,076.00	0.00	0.00
Total	464,130,121.86	186,775,493.86	277,354,628.00	0.00
At 30 June 2020				
Trade Payables	444,626,045.61	167,271,417.61	277,354,628.00	0.00
Current Portion of Borrowings	0.00	0.00	0.00	0.00
Provisions	0.00	0.00	0.00	0.00
Deferred Income	0.00	0.00	0.00	0.00
Employee Benefit Obligations	0.00	0.00	0.00	0.00
Total	444,626,045.61	167,271,417.61	277,354,628.00	0.00

NOTES TO THE FINANCIAL STATEMENTS (Continued)

ii. **Market risk:** The board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

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

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

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

Description	2020-2021	2019-2020
	Kshs	Kshs
Government Investments	5,211,074,745.00	5,162,350,513.00
Valuation	7,663,988,072.00	37,670,072.00
Capital Reserve	(838,220,619.00)	(1,283,780,512.00)
Total Funds:	12,036,842,198.00	3,916,420,073.00
Total borrowings		
Less: Cash and Bank Balances	0.00	0.00
Net Debt (Excess cash and Cash Equivalents)	0.00	0.00
Gearing	0.00	0.00

31. Capital Commitments

Capital Commitments	2020-2021	2019-2020
	Kshs	Kshs
Authorized for Contract	9,389,355,062.00	0.00
Authorized and Contracted for and ongoing	232,596,535.28	0.00
Total:	9,621,951,597.28	0.00

32. **Surplus Remission:** In accordance with section 219 (2) of the Public Financial Management Act regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each year.

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

In line with this legal requirement, the Kenya Ordnance Factories Corporation did not make any surpluses during the Financial Year 2020 and hence no remittance to the Consolidated Fund.

33. Differed Tax Liability: The Corporation had no deferred Tax liability at the year end 30th June 2021.

34. Contingent Liabilities: There are no contingent liabilities for which provisions have not been made in these Financial Statements.

35. Currency: These Financial Statements are presented in Kenya Shillings (Ksh).

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

37. Ultimate and Holding Entity: The Kenya Ordnance Factories Corporation is a State Corporation under the Ministry of Defence. Its ultimate parent is the Government of Kenya.

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

38. DETAILED STATEMENT OF COMPREHENSIVE INCOME			
FOR THE YEAR ENDED 30 JUNE 2021	NOTE	YEAR ENDED	YEAR ENDED
		2020-2021	2019-2020
		KSHS	KSHS
SALES		651,672,161	695,835,135
LESS:			
Opening stock of finished goods		83,392,570	188,466,972
Production cost of finished goods		805,079,527	882,823,704
Closing stock of finished goods		(334,609,937)	(83,392,570)
COST OF GOODS SOLD		553,862,160	987,898,106
TRADING (LOSS)/PROFIT		97,810,001	(292,062,971)
DEFKITCH 2012 (Field Kitchen Sales) & GE		7,749,110	13,244,296
Finance (Cost) Income Bank interest income		3,006,893	1,755,324
Water Sales		76,595,048	65,440,369
Disposal Sales		482,267	255,269
Farm/Milling Sales		138,310,537	77,839,634
Bakery Sales		126,686,916	121,788,457
KDF FPF Sales (Gilgil) Dehydrated Vegetables		88,172,880	57,921,353
Recurrent Grants		504,663,849	346,033,739
Fair Value Gain/(Loss) on Biological Assets		(28,660,243)	(14,338,637)
		1,014,817,258	377,876,832
EXPENDITURE			
Motor vehicle running expenses		4,726,700.54	39,983,039
Petroleum, Oils and Lubricants		27,932,837.00	-
Travelling and accommodation		14,470,539	15,580,378
Administration salaries and allowances		173,482,825	156,895,597
Telephone and postage		3,753,921	4,152,531
Computer expenses		2,293,780	1,485,900
Official Entertainment		1,345,922	560,949
Directors Fees		2,689,110	3,100,638
Uniforms		1,324,870	1,898,994
Printing and Stationery		2,494,170	1,855,572
Rents		2,371,200	2,281,200
General stores and Replacement of Pumps		1,620,494	3,397,346
Training		430,300	621,125
Bank charges		1,897,002	2,495,250
Medical expenses		151,764	231,502

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)			
Electricity		6,968,176	6,535,911
Depreciation:			
Motor vehicles		8,151,974	624,832
Buildings and civil works		1,771,583	1,767,108
Furniture and fittings		254,770	63,373
Waterline and civil works		953,544	953,544
Computers		15,941,354	903,038
Sales, Marketing and Advertising		110,679.00	1,813,172
Tendering and Advertising		1,667,328.00	-
Newspapers and periodicals		649,740	686,940
Domestic and Household Expenses/Office Equipment		285,559	399,268
Insurance		1,408,764	4,593,308
Building and Roads maintenance		2,503,070	4,279,595
Clearing and Transportation Expense		10,244,032	7,300,678
Audit fees		2,436,000	812,000
ISO Certification		217,800	161,300
Water and Conservancy		209,296	183,705
Security Expenses		45,900	27,500
Communication Expenses		107,496	199,887
Field Kitchen Fabrication		4,708,094	6,457,885
Farm Expenses		67,274,922	72,234,676
Bakery Consumables		80,820,780	90,802,889
Water Bottling Consumables		27,095,960	58,507,083
Milling Plant Consumables		10,570,928	14,449,354
KDF FPF Gilgil Expenses		83,874,180	61,212,610
TOTAL EXPENDITURE		569,257,365.00	569,509,678
Withholding Tax		0.00	0.00
OPERATING (LOSS)/PROFIT		445,559,893.00	(191,632,846)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

39. MANUFACTURING ACCOUNT FOR YEAR ENDED 30 JUNE 2021		
	YEAR ENDED	YEAR ENDED
	2020-2021	2019-2020
	KSHS	KSHS
DIRECT COSTS:		
Opening stock of raw materials	367,774,202	335,533,703
Purchases of raw materials	220,420,451	332,912,753
	588,194,653	668,446,456
Less:		
Closing stock of raw materials	(274,544,235)	(367,774,202)
Cost of raw materials used	313,650,419	300,672,254
Add:		
Direct labour	404,793,259	366,089,727
Prime cost	718,443,677	666,761,981
FACTORY OVERHEADS:		
Insurance	5,635,055	18,373,233
Electricity	27,872,703	26,143,645
Water & Effluent treatment chemicals	1,977,245	6,520,008
Consumables	12,849,451	10,779,568
Machine Spares & Maintenance	12,541,498	6,538,166
Depreciation:		
Plant and machinery	75,813,225	75,396,613
Motor vehicles	32,607,896	2,499,327
Buildings and civil works	7,086,334	7,068,431
Furniture and fittings	1,019,081	253,492
Waterline and civil works	3,814,178	3,814,178
	181,216,666	157,386,660
TOTAL	899,660,343	824,148,641
Opening work-in-progress	94,704,201	160,779,264
Opening scrap	7,500,000	100,000
Less:		
Closing work-in-progress	(195,369,017)	(94,704,201)
Closing scrap	(1,416,000)	(7,500,000)
PRODUCTION COST OF FINISHED GOODS	805,079,527	882,823,704

KENYA ORDINANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

APPENDIX I: 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	Cash and Cash Equivalents				
1.1	Unsupported Restated Current Account Balance Disclosed in Note 17 to the financial statements under cash and cash equivalents is a comparative current account balance of Kshs. 39,793,872.21 for the financial year 2018/2019 which differs with the previous year's current account closing balance of Kshs. 32,793,872.21 as at 30 June 2019. No disclosures and reasons have been provided in the current financial statements for the restated balance of Kshs. 39,793,872,21. Consequently, the accuracy and completeness of cash and cash equivalents balance of Kshs. 254,054,445.92 as at 30 June 2020 could not be confirmed.	Note 17 of the financial statements amended to read Kshs 32,793,872.21.	FM	Resolved	30 Jun 2021
2	Variance Between the Financial Statements and the Trial Balance The following variances were observed between the financial statements and the trial balance as at 30 June 2020:	Trial Balance adjusted accordingly on the variance.	FM	Resolved	30 Jun 2021

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

Reference No.	Issue/Observation from Auditor				Management Comments	Focal Point person to resolve the issue	Status	Timeframe
	Description	Financial Statements - Kshs	Trial Balance Kshs	Variance - Kshs				
	Raw materials (Note 15)	232,436,486	308,234,143	(75,797,657)				
	Other raw materials, field kitchen and tools/dye (Note 15)	0	27,299,560	(27,299,560)				
	Tax recoverable (Note 18)	12,859,976	0	(12,859,976)				
	<p>Consequently, the accuracy and completeness of materials, other raw materials including field kitchen tools/dye and tax recoverable figures disclosed in Notes and 18 to the financial statements for the year ended June 2020 could not be ascertained.</p>							
3	<p>Property, Plant and Equipment</p>							
3.1	<p>Lack of Detailed Analysis The statement of financial position as at 30 June 2020 reflects property, plant and equipment balance of Kshs.2, 911, 729, 587 and as disclosed in Note 14 to the financial statements. However, detailed analysis in support of the schedule under Note 14 was not</p>							
					The existing asset register reflects all the various assets heads in block figures obtained from records of the contractor (FNH Herstal of Belgium). These figures are the	KOFC Board of Directors and PS	Not Resolved	30 Jun 2022

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
	<p>provided for audit review.</p> <p>A review of the fixed assets register could not also assist in determining the source of the values attributed to the property plant and equipment. The management explained that the balances were based on a private audit report. The private audit report was however not provided for audit review.</p>	<p>ones we are currently depreciating to date. However, to enable the updating of the register and to capture all the assets individual value, the Board of Directors, during the 51st Board meeting directed Ministry of Defence (Works Department) in liaison with the Chief Valuer, Ministry of Land Housing and Settlement, to value all the Corporation's assets and thereafter update the register and depreciate them accordingly. Once the valuation exercise is concluded, detailed schedules of buildings and civil works; waterline, plant, equipment and machinery, furniture and fittings shall be availed to the auditors for verification.</p> <p>Valuation of the Corporation buildings was done in the month of March 2021 and the final report is to be presented to the Board of Directors once it is concluded.</p>	Ministry of Defence		

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
3.2	<p>Food Production Factory in Gilgil</p> <p>Information available indicates that the Ministry of Defence constructed and equipped food production factory in Gilgil at a cost of Kshs. 846,228,355. The factory was completed and commissioned in 2017. However, documents in respect of handover of the factory to Kenya Ordnance Factories Corporation were not provided for audit review.</p> <p>Further, a review of the assets register revealed that the factory buildings and equipment had not been taken on charge by the Corporation. Consequently, the legal custodian of the factory assets and their fair value could not be ascertained.</p>	<p>There is no detail of property in regards to Food Processing Factory (FPF) are available at KOFC headquarters and have not been taken in charge in KOFC fixed assets register. A decision on the future operations in terms of its administration under consideration by the government of Kenya and is yet to be communicated to this headquarters. Available data indicate that FPF Assets still belong the Ministry of Defence (MoD).</p>	<p>KOFC Board of Directors and PS Ministry of Defence</p>	<p>Not Resolved</p>	<p>30 Jun 2020</p>
3.3	<p>3.3. Land</p> <p>As reported in the previous years, the Corporation only has title documents for land measuring 727.7 hectares on which the factory stands. The Corporation also 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.</p> <p>The process of surveying the additional 908 hectares started in February 2011 but stalled due to squatters who could not allow surveyors access to the land in the</p>	<p>The corporation land parcel numbers LR No 27206/2, 27206/5, 27206/6 and 27206/6 were valued by the Ministry of Lands & Physical Planning on 12th March 2021. The total valuation figure of Kshs 7,626,318,000.00 has been included in FY 2020/2021 financial statements.</p>	<p>KOFC Board of Directors and PS Ministry of Defence</p>	<p>Resolved</p>	<p>12 Mar 2021</p>

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
	<p>buffer zone, which is necessary to ensure safety of the people in the neighbourhood and security of the factory in accordance with International Standards.</p> <p>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, 2,545 hectares and 727.1 hectares, respectively have not been valued and included in these financial statements.</p> <p>Consequently, the existence and ownership of the property, plant and equipment, and accuracy and completeness of the related balance of Kshs. 2,911,729,587 as at 30 June 2020 could not be confirmed.</p>				
4	Trade and Other Receivables				
4.1	<p>Long Outstanding Receivables</p> <p>The statement of financial position as at 30 June 2020 reflects balances of KShs.542,984,239.00 and Kshs.12,859,976.00 relating to trade and other receivables and tax recoverable, respectively. As disclosed in Note 18 to the financial statements, these balances include receivables totalling Kshs. 139,604,547 which have been outstanding for a long</p>		KOFC Board of Directors and PS Ministry of Defence	Not Resolved	30 Jun 2022

KENYA ORDNNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
	period of time.				
4.2	<p>Staff Debtors</p> <p>In addition, disclosed in Note 18 to the financial statements are staff debtors' totalling Kshs. 3,533,533. Included in this balance is a debt of Kshs. 1,473,774 arising from a payment voucher no. 6851 dated 14 June 2019 for Kshs. 2,149,699. The payment was in respect of stipend and other allowances to 269 staff members. The schedule attached had wrong phone numbers of beneficiaries resulting in the whole amount of Kshs. 2,149,699.00 being wired to wrong beneficiaries by the bank on 15 April 2019.</p> <p>As at the time of audit in February 2021, the bank had recovered an amount of Kshs. 675,925 leaving a balance of Kshs. 1,473,774. No explanation was provided for failure to recover the outstanding balance in full.</p>	<p>Staff debtors amounting to Kshs 3,533,533.00 is still outstanding. Part of this amount Kshs 180,000.00 has been recovered from welfare fund and paid fully to public funds. Ksh 2,149,699.00 wired by Kenya Commercial Bank to wrong beneficiaries on 15th April 2019 is being recovered by the bank. So far Kshs 675,925.00 has been recovered and paid to KOFCA. The management is pursuing the bank to immediately refund the balance to the Corporation in the shortest time. It is expected that before the end of this Financial Year 2021/2022 the whole amount will have been received in Corporation's books of account. However, an investigation through a Board of Inquiry has commenced and recommendations on the outcome will be implemented.</p>	MD and FM	Not Resolved	30 Jun 2022
4.3	<p>Tax Recoverable</p> <p>Further, as reported in the previous years, disclosed in</p>	Collectability of tax recoverable of			

KENYA ORDINANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
	<p>Note 18 to the financial statements is tax recoverable balance of Kshs.12,859,976 in respect of Value Added Tax (VAT) due from Kenya Revenue Authority (KRA), which has been outstanding for the last 19 years. In the circumstances, the recoverability of Kshs 12,859,976 could not be ascertained.</p>	<p>Kshs 12,859,976.00 is doubtful since it has been outstanding for the last 19 years. This matter is being pursued with the Kenya Revenue Authority with the assistance of DHQ Legal. FY 2020/2021 Corporation financial statements, KOFC has made a provision to cover uncertainty in recovering the claim as per your recommendations.</p>	MD / FM	Not Resolved	30 Jun 2022
4.4	<p>Claimable Value Added Tax</p> <p>As previously reported, disclosed in Note 18 to the financial statements under receivables from exchange transactions is claimable value added tax of Kshs.111,957,288 and which includes an amount of Kshs.73,098,600 indicated as due from Ministry of Defence. However, no documentary was provided for audit verification to ascertain how the amount was arrived at.</p> <p>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 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.</p>	<p>Following the termination of the M/S Simiyu consultancy service, during the 57 Board of Directors the principal secretary Ministry of Defence was tasked to follow up on the refund of Kshs 68,861,381. Reference is made to Kenya Revenue Authority letter KRA/DTD/AM&RD/007 dated 27 February 2017 declaring Ksh 36,377,490 was not payable as the claim was submitted late and therefore time barred was not justified by Kenya Revenue Authority (KRA). In the month of February this year,</p>	MD / FM	Not Resolved	30 Jun 2022

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

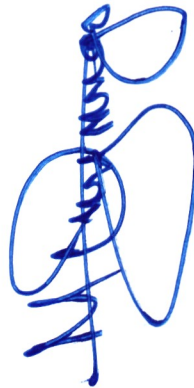
Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
	<p>Records reviewed indicated that the input tax on imported raw materials was paid by the Ministry of Defence on behalf of the Corporation using its PIN No P051098785V while the claim was filed by the Corporation using the Corporation PIN No. P051121081J. However, there was no evidence to indicate that the two entities were jointly registered for VAT refund at that time.</p> <p>Although the management indicated that the above amount was due from the Ministry of Defence, there was no documentary evidence to show that the Ministry was pursuing the claim on behalf of the Corporation from Kenya Revenue Authority and, if the amount was still recoverable.</p> <p>Further, included in the claimable VAT amount of Kshs.111,957,288.00 is an amount of Kshs.36,377,490 for the year 2003. However, a letter Ref No. KRA/DTD/AM&RD/007 dated 22 February 2017 from Kenya Revenue Authority indicated that the withholding VAT refund of Kshs.36,377,490.00 was not payable as the claim was submitted late and therefore time barred. Although, the Corporation had engaged a tax consultant to follow up the claim, there was no indication of the progress made in recovering</p>	<p>KRA visited the Corporation to conduct audits on compliance and to get more details on claimable VAT. Subsequently, the Chairman Board of Directors engaged the Commissioner KRA on Ministry of Defence matters and KOFC claimable VAT. A task force comprising of Ministry of Defence, KRA and KOFC official was established to address these matters. During the meetings held in the month of March 2021, the meeting chaired by Chief of Legal agreed that KRA to follow up on the two claims and advise the principal on status of payments. KRA officials indicated that the Ministry of Defence to make a claim of Kshs 68 Million since their pin was used during clearance of raw materials. The balance to be confirmed by KRA if the Ministry of Interior made remittances of funds withheld and advice KOFC accordingly. This matter will be addressed during the April 2021 BoD meeting to be held at KOFC. The decision on the</p>			

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
	<p>the claim.</p> <p>Consequently, the recoverability of the claimable VAT amount of Kshs.111,957,288 included under receivables from exchange transactions in the Note 18 to the financial statements is doubtful.</p>	<p>matters affecting KOFC will be communicated after the BoD meeting.</p>			
5	<p>Trade and Other Payables</p> <p>The statement of financial position as at 30 June 2020 reflects trade and other payables' balance of Kshs.444,626,046 which includes trade payables' of Kshs. 277,354,628 as disclosed in Note 21 to the financial statements.</p> <p>As reported in the previous years, the trade payables of Kshs.277, 354,628 relates to prepayment made by the Ministry of Defence for product purchases which have remained unsettled or un-serviced since 2011/2012. Although the management explained that the Corporation and the Ministry of Defence reached an agreement for the Corporation to issue a credit note for the outstanding amount, the agreement was not provided for audit verification.</p> <p>Consequently, the validity, accuracy and completeness of the trade payables figure of Kshs. 277,354,628 included in trade and other payables balance of Kshs.444, 626,046 as at 30 June 2020 could not be</p>	<p>Trade payables of Ksh 277,354,627.00 was paid in advance by the Ministry of Defence for the supply of ammunition products and has been long outstanding. The initial amount owed to MoD by KOFC was Ksh 317,205,317.00 of which the two parties reached an agreement to convert the amount into a Credit note. Since then and up to the period under review, KOFC has so far supplied Ammo worth Ksh 39,850,689.00 leaving a balance of Ksh 277,354,628.00. However, the agreement is a tall order for KOFC to meet due to the long downtime caused by aged and obsolete machines affecting ammunition production output. The</p>	<p>KOFC Board of Directors and PS Ministry of Defence</p>	<p>Not Resolved</p>	<p>30 June 2023</p>

KENYA ORDNANCE FACTORIES CORPORATION
 ANNUAL REPORT AND FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2021

Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
	ascertained.	output can only be improved if the proposed new ammunition Production Lines are installed.			



MAJOR GENERAL M K ONG'OYI CBS, 'ndc' 'psc' (K)
Managing Director