
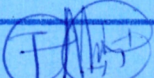
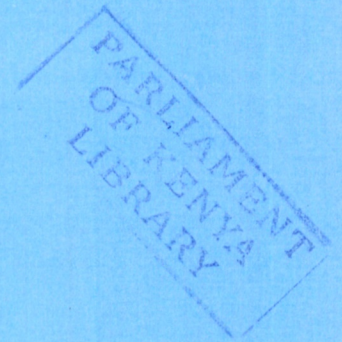


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

 <b>REPORT</b> THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 04 JUN 2019	DAY: TUESDAY
TABLED BY: MAJORITY LEADER	OF
CLERK-AT-THE-TABLE: 	



**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
KENYA NATIONAL TRADING  
CORPORATION**

**FOR THE YEAR  
ENDED 30 JUNE 2018**





Kenya National Trading  
Corporation Ltd.

**KENYA NATIONAL TRADING CORPORATION LTD**

**REPORTS AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2018**

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

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## I. KEY ENTITY INFORMATION

### Background information

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

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

**Our Mission:** To provide customers with quality products and services at affordable prices through an efficient distribution network while ensuring availability of essential commodities and maximizing shareholders' returns.

### Our Mandate:

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

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

### Directors

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

- |                           |   |
|---------------------------|---|
| 1. Joel K. Imitira        | - Ag. Managing Director (Joined on 11 <sup>th</sup> September 2018) |
| 2. Paul Mwitii Mathiu     | - Ag. Managing Director (left on 11th September 2018)               |
| 3. Peter Mulavu           | - Alternate to The CS The National Treasury.                        |
| 4. Jared Nyaundi          | - Alternate to The PS Ministry of Industry, Trade & Cooperatives    |
| 5. Joseph Mwaura          | - Alternate to the Executive Director ICDC (Left in August 2017)    |
| 6. Anne Kitawa Tangai     | - Non Executive Director  |
| 7. George Kuria Murathe   | - Non Executive Director  |
| 8. Haggai William         | - Alternate to Executive Director ICDC (Joined in November 2017)    |
| 9. Jason Rosario Braganza | - Non Executive Director  |
| 10. Millicent Onyonyi     | - Non Executive Director  |

**Kenya National Trading Corporation Ltd**

**Reports and Financial Statements  
For the year ended June 30, 2018**

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**Company Secretary**

Mrs. Grace Magunga  
P.O. Box 45519,  
Nairobi

**Registered Office**

**KNTC Yarrow Road Complex**

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

**Corporate Headquarters**

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

**Corporate Contacts**

Tel: (020) 2430824 Fax: (020) 556331  
GSM: 0736-563912, 0714563911  
Website: [www.kntcl.com](http://www.kntcl.com)  
E-mail: [kntcl@kntcl.com](mailto:kntcl@kntcl.com)

**Corporate Bankers**

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

**Independent Auditors**

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

**Principal Legal Advisers**

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

## II. THE BOARD OF DIRECTORS



Mr. Joel Kinyua Imitira  
Ag. Managing Director

**Position:** Joel was appointed as the Acting Managing Director in September 2018.

**Skills and experience:** Joel holds Masters and Bachelors in Economics both from the University of Nairobi. He has more than 23 years of experience as Senior Economist, Tariffs & Market Analyst and Managing Director gained from the public sector.



Mr. Paul M. Mathiu  
Ag. Managing Director

**Position:** Acting Managing Director from April 2015 to September 2018.

**Skills and experience:** Paul holds a Bachelor of Business Administration. He has certificates in project development & management and Strategic leadership development. He has over 30 years' experience in micro & small enterprise development and entrepreneurship. Mathiu left the Corporation on 11<sup>th</sup> September 2018.



Mr. Jason Braganza  
Independent Non-Executive  
Director

**Position:** Appointed to the Board in October 2015. He is a Member of the Finance and Administration and the Audit Committee.

**Skills and experience:** Jason has over 10 years' experience in international development, trade policy, and private sector development issues. He holds a Masters of Arts in Development Economics from the University of Sussex and a Bachelor of Science in Economics from SOAS University of London



Mrs. Millicent Onyonyi  
Independent Non-Executive  
Director.

**Position:** Appointed to the Board in October 2015. She is a Member of the Sales and Marketing committee and the Audit Committee

**Skills and experience:** Millicent has over 24 years of local and international experience, predominantly in the oil industry. She has worked in various management positions in Boc Gases Ltd, ExxonMobil Limited and Libya Oil Africa. Millicent holds a Bachelor of Commerce (Honours) Degree (Business Administration and Marketing) from the University of Nairobi.



Ms. Anne Tangai  
Independent Non-Executive  
Director

**Position:** Appointed to the Board in October 2015. She is the chairman of the Finance & Administration Committee and a Member of the Sales and Marketing committee

**Skills and experience:** Anne has over 10 years' experience in the hospitality industry. She holds a Master's Degree in Human Resource Management for the Hospitality and Tourism Industries from the University of Strathclyde.

**Kenya National Trading Corporation Ltd**

**Reports and Financial Statements  
For the year ended June 30, 2018**

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George K. Murathe  
Independent Non-Executive  
Director

**Position:** Appointed to the Board in October 2015. He is the chairman of the Sales and Marketing committee and member of the Finance & administration committee.

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



Mr. Haggai William  
Alternate to the  
Executive Director, ICDC

**Position:** Appointed to the Board in November 2017. He is a member of the Finance & Administration Committee and Audit Committee.

**Skills and Experience:** He has over 20 years' experience in Information systems management, Enterprise Risk Management, Strategic planning, Operations Management, and Performance Monitoring and Evaluation. He holds a Masters of Business Administration degree in Operations Management and a Bachelor of Commerce degree in Management Science from the University of Nairobi. He is also a Quality Management Systems Auditor and a member of the Computer Society of Kenya, and the Institute of Directors Kenya.



Mr. Peter Mulavu  
Alternate to the PS,  
The National Treasury

**Position:** Mr. Mulavu was appointed to the Board in April 2015 as the Alternate to the Cabinet Secretary, The National Treasury. He is a Member of the Finance & Administration and the Sales & Marketing Committee.

**Skills and experience:** He holds a Bachelor of commerce in Business Administration and a member CIPS-UK and KISM. Peter has over 25 years in financial Management with bias in Supply Chain Management.



Mr. Jared Nyaundi  
Alternate to the PS,  
Ministry of Industry, Trade &  
Co-operatives

**Position:** Mr. Nyaundi was appointed to the Board in April 2015 as the Alternate to the Permanent Secretary in the Ministry of Industry, Trade & Co-operatives. He is a Member of the Finance & Administration and the Sales & Marketing Committee.

**Skills and experience:** He holds a Masters in Business Administration from Masinde Muliro University. He has certificates in project development & management and Strategic leadership development. He has over 30 years' experience in micro & small enterprise development and entrepreneurship

**Position:** Grace has been the Company Secretary since 2006.



Mrs. Grace Magunga  
Company Secretary

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

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

III. MANAGEMENT TEAM



Joel K. Imitira

Age 50

Ag. Managing Director

**Position:** Joel was appointed as the Acting Managing Director in September 2018.

**Skills and experience:** He holds Masters in Economics and Bachelors in Economics both from the University of Nairobi. He has more than 24 years of experience as Senior Economist, Tariffs & Market Analyst and Managing Director gained from the public sector.



Paul M. Mathiu

Age 59

Ag. Managing Director

**Position:** Mr Mathiu was appointed as the acting MD in April 2015.

**Skills and experience:** He holds a Bachelor of Business Administration and has certificates in project development & management and Strategic leadership development. He has over 30 years' experience in micro & small enterprise development and entrepreneurship. Mathiu left on 11<sup>th</sup> September 2018.



Timothy Mirugi

Age 35

Head of  
Sales & Marketing

**Position:** Timothy was appointed as the Sales and Marketing Manager from May 2018.

**Skills and experience:** Timothy holds a bachelor's in International Business Administration and is currently pursuing an MBA in Strategic Management. He has over 10 years' experience in Sales & marketing and has served in various capacities in the Corporation.



Ms. Lucy M. Anangwe

Age 40

Head of  
Finance & Accounts

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

**Skills and experience:** Lucy holds an MSc in Finance, a bachelor's degree in Economics and Business Studies, CPA-K and is a member of ICPAK. She has over 10 years' experience in Finance.



Regina Kamwenji  
Age 43  
Head of Human Resource  
& Administration

**Position:** Regina was appointed as the Human Resource and Administration Manager from January 2011.

**Skills and experience:** Regina holds an MBA in Human Resource and management and a higher diploma in personnel management and industrial relations. She has over 10 years' experience in Human resource management and a member of IHRM.



Joshua Mukhwana  
Age 56  
Head of Internal Audit

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

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



Evelyne Wanjiru  
Age 33  
Procurement Officer

**Position:** Evelyne was appointed as the Procurement Officer and Head of Procurement from September 2014.

**Skills and experience:** Evelyne holds a Bachelors' degree in Purchasing and Supplies management and a diploma in Supplies chain Management. She has over 8 years' experience in procurement & Supply chain management. She is a Licenced supplies practitioner and member of KISM.



Lawrence Bengat  
Age 32  
ICT Administrator

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

**Skills and experience:** Lawrence holds a Bachelors' degree in Business Management & Information Technology and has certification in CCNA. He has over 7 years' experience in ICT.

#### **IV. CHAIRMAN'S STATEMENT**

Despite the significant challenges faced by the Corporation during the period under review namely stiff competition in the local market and limited working capital, the Corporation is on the right track. The Board and Management remain focused on putting in place measures that in the long-term will enable the Corporation to strengthen its balance sheet and resume shareholder returns. On behalf of the board, I call upon employees, customers, and stakeholders to work with us in transforming and turning around the Corporations business performance and laying foundations for future growth.

The economy recorded growth rates of 5.3% which is lower than the projected 5.7% real GDP growth by 2018. GDP estimates by Kenya National Bureau of Statistics indicate that the 1<sup>st</sup> quarter economic growth was 5.85% in 2016, 4.8% in the 2017 and 5.3% in 2018. Among the reasons for lower growth rate included slowdown in the growth of the manufacturing sector as a result of cheaper imports of manufactured products and adverse weather patterns which affected growth of the agricultural sector and political tension experienced in Kenya up to March 2018. Adverse global environment and market conditions such as financial market volatility and falling commodity prices also played a part in contributing to the low economic growth rates.

##### **Company Performance:**

The Corporation made an operating loss of Kshs.11 million. Other results are as stated below:

- Revenue decreased by 3% to Kshs. 112.8 million
- Operating costs increased by 2.8%
- Gross profit was Kshs 18.4 Million
- Loss before tax was Kshs. 14.5 million
- Ordinary share capital is Ksh.32 million which comprise of 1.6 million shares valued at Ksh.20 each.

##### **Appreciation**

I take this opportunity to express my sincere appreciation to our customers, shareholders, parent ministry, management, staff, suppliers and fellow board members for their dedicated contribution and continued support to the Corporation.



**George K. Murathe**  
**Ag.Chairman.**

## V. REPORT OF THE MANAGING DIRECTOR

In the past year, KNTC continued with its business transformation agenda. We have taken decisive, immediate action on the challenges we faced. In a very deliberate way we have made and continue to make the changes needed to re-energise the operations.


Over the past year, we have restored our total commitment to giving the best possible quality of goods and services to our customers. This is guiding every action we are taking and will be instrumental in making the Corporation's business competitive again. We have built up strong positive sales momentum throughout the year by investing in lower, more stable pricing, improved service and product availability. We are rebuilding profitability whilst continuing to invest in our transformation programme. The long-term health of our balance sheet will be determined by our continued ability to improve profitability and generate cash.

Our progress towards rebuilding trust in the KNTC brand has been led by the commitment and passion demonstrated by our staff. Over the past year, I've spent a lot of time with staff in our depots and seen their commitment to customer service. The actions we've taken to reaffirm our competitiveness across the country, protect the balance sheet, and rebuild trust continue to stabilize the Corporation. As the KNTC team, we remain committed to serving customers better every day, in what remains a challenging, inflationary and uncertain market. We are confident that the investments we are making are creating long-term value for our stakeholders.

In the coming year, we endeavour to guide our efforts with the three main priorities:

- To regain lost market share in our core product portfolio;
- To protect and strengthen the balance sheet; and
- To rebuild trust of our customers

I am sure that it will be another busy year and I'm confident that with the customer at the heart of everything we do, we will continue to rebuild our fortunes.



**Joel K. Imitira.**

**Managing Director Ag..**

## **VI. CORPORATE GOVERNANCE STATEMENT**

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

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

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

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

### **Board of Directors**

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

### **Board Meetings**

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

### **Board Committees**

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

1. Sales and Marketing Committee
2. Finance and Administrative committee
3. Audit committee

**Code of Conduct**

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

**Internal Controls**

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

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

**Conflicts of Interest**

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

**Going Concern**

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

## VII. MANAGEMENT DISCUSSION AND ANALYSIS

### Operational and Financial Performance

#### 1. Share capital

KNTC has only one class of shares – Ordinary shares of par value Kshs. 20 each. The share capital balance as at 30<sup>th</sup> June 2018 amounted to Kshs 32,000,000 which is the same as the previous year.

#### 2. Reserves and Surplus

##### Retained Earnings

The net loss from the previous year ended 30<sup>th</sup> June 2017 amounting to Kshs. 12,804,177 was transferred to the retained earnings. The balance as at 30<sup>th</sup> June 2018 amounted to Kshs. 236,740,416 (previous year restated to Kshs. 226,503,325).

##### Shareholders' funds

The total shareholders' fund was Kshs. 2,605,902,361 as at 30<sup>th</sup> June 2018 compared with Kshs. 2,616,139,452 restated as at 30<sup>th</sup> June 2017.

#### 3. Trade and Other Receivables

The trade receivables amounted to Kshs. 105,506,396 as at 30<sup>th</sup> June 2018 (net of provision for doubtful debts amounting to Kshs 24,362,179), compared to Kshs. 100,752,400 (Net of provision for doubtful debts amounting to Kshs. 18,271,635) as at 30<sup>th</sup> June 2017. Except for the specific debts provided for, these debts are considered good and realizable.

#### 4. Inventories

Inventories amounted to Kshs. 11,051,710 as at 30<sup>th</sup> June 2018 (net of provision for obsolescence amounting to Kshs 236,134), compared to Kshs. 12,963,593 for the previous year.

#### 5. Cash and cash equivalents

The balance in our current accounts stands at Kshs 709,926 as at June 30<sup>th</sup>, 2018 as compared to Kshs.1, 489,599 as at June 30<sup>th</sup>, 2017.

## Results of our operations

### 1. Income

All of the revenues for the year ended 30<sup>th</sup> June 2018 were domestic revenues. Our revenues are generated primarily from sales of products, commission and rent from our leased warehouses. The total income, net of costs was Kshs 112,798,576 compared with Kshs 113,136,340 from the previous year

#### Gross profit

The gross profit during the year was Kshs.18,442,927 representing 13% of revenues, compared to Kshs 18,456,614 representing 16% of revenues in the previous year.

### 2. Expenditure

#### a) Staff Costs

Staff costs were 45% of revenues, compared to 47% during the previous year. Staff costs relate to salaries and benefits paid to employees.

#### b) Administration expenses

Administration expenses amounted to 29% and 21% of our total revenues, for the current and previous years respectively.

All other expenses, excluding staff costs and depreciation, were 10% of revenues during the year, as compared to 13% in the previous year.

### 3. Operating profits

KNTC incurred an operating loss before tax of Kshs. 14,583,601 representing -13% of total revenues, compared to Kshs 12,804,177 representing -11% of total revenues, during the previous year.

### 4. Earnings per Share (EPS)

Our basic EPS was (32%) during the year 2018 while the previous year was (40%). The outstanding shares used in computing the basic EPS were Kshs. 1,600,000.

### 5. Liquidity

Our growth has been financed largely through cash generated from operations. The net cash generated from our operations was Kshs 3,538,384 and Kshs 8,307,174 for the years ended June 30<sup>th</sup>, 2018 and June 30<sup>th</sup>, 2017, respectively.

Net cash used for investing activities was Kshs. 2,350,110 and Kshs. 3,738,919 for the years ended June 30<sup>th</sup>, 2018 and June 30<sup>th</sup>, 2017, respectively.

Net cash used in financing activities was Kshs. 1,967,948 and Kshs. 6,511,210 for the years ended June 30<sup>th</sup>, 2018 and June 30<sup>th</sup>, 2017, respectively.

## VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

The Corporation is strongly aware that companies are also members of a society, and that a company cannot remain sustainable unless it coexists with society as a good corporate citizen and meets the expectations of the society through its business activities.

KNTC believes that corporate social responsibility (CSR) lies in corporate thought and action on the question of how to play a role in building sustainable societies through business activities.

This approach ties into our corporate mandate of Stabilizing consumer commodity prices by ensuring balance in supply and demand through availability of stocks/goods in the country and Promoting the development of SME markets, expansion and diversifications of trade in line with the Government Policy.

We believe that it is our mission to understand diverse values of our communities meet the expectations of the society and continue to be a corporation that is relevant to the society.

During the year under review, the Corporation was involved in various other CSR activities some of which are outlined below;-

- Established appropriate procedures and practices to minimize the consumption of energy, water, paper and other material inputs, and minimize the generation of waste, associated with its office-based activities.
- Reduced the paper intensity of its office-based operations through encouraging use of electronic communication technologies. While reducing the amount of office waste produced, KNTC ensured proper disposal of its office waste. In addition, we maximized the amount reused and recycled which included double printing its documents and encouraging electronic methods of information storage and retrieval.
- Planted trees and flower gardens in the entire office environment at the head office and conducted awareness-oriented activities to sensitize its staff and stakeholders on the need to conserve the environment.
- Externally, KNTC facilitated environmental awareness campaigns in partnership with its stakeholders including tree planting days.

-

## IX. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2018 which show the state of the Corporation's affairs.

### Principal activities

The principal activities/mandate of the Corporation are:

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

### Results

The results of the Corporation for the year ended June 30, 2018 are set out on page 1-31

### Dividends

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

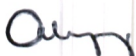
### Directors

The members of the Board of Directors who served during the year are shown on page 2.

### Auditors

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

By Order of the Board



**Grace M. Magunga**  
Company Secretary  
Nairobi

Date.....

## X. STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of the KNTC's financial statements, which give a true and fair view of the state of affairs of the Corporation for and as at the end of the financial year ended on June 30, 2018. This responsibility includes:

- (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Corporation;
- (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;
- (iv) safeguarding the assets of the Corporation;
- (v) selecting and applying appropriate accounting policies; and
- (vi) Making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Corporation's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and the State Corporations Act.

The Directors are of the opinion that KNTC's financial statements give a true and fair view of the state of the Corporation's transactions during the financial year ended June 30, 2018, and of the Corporation's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Corporation, which have been relied upon in the preparation of the financial statements as well as the adequacy of the systems of internal financial control.

### Approval of the financial statements

The Kenya National Trading Corporation's financial statements were approved by the Board on 14<sup>th</sup> March 2019 and signed on its behalf by:



Director



Director



Director

# REPUBLIC OF KENYA

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P.O. Box 30084-00100  
NAIROBI



## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON KENYA NATIONAL TRADING CORPORATION FOR THE YEAR ENDED 30 JUNE 2018

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#### REPORT ON THE FINANCIAL STATEMENTS

#### Qualified Opinion

I have audited the accompanying financial statements of Kenya National Trading Corporation set out on pages 1 to 30, which comprise the statement of financial position as at 30 June 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya National Trading Corporation as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (Accrual Basis) and comply with the Kenya Companies Act, 2015.

#### Basis for Qualified Opinion

##### 1. Property, Plant and Equipment

##### 1.1. Lack of Ownership Documents

As reported in the previous years, the property, plant and equipment balance of Kshs.2,657,387,699 as at 30 June 2018 includes three parcels of land situated at Nanyuki, Nyahururu and Kapsabet valued at Kshs.5,600,000 as shown below whose ownership documents were not availed for audit verification.

Locality	Registration No.	Size	Value Kshs.
Nanyuki	2787.514	0.4645 Hectares	3,000,000
Nyahururu	6585/323/2	0.405 Hectares	2,100,000
Kapsabet	Kapsabet/54	0.112 Hectares	500,000
			<b>5,600,000</b>

The management explained the status of the three (3) parcels of land as follows:

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*Report of the Auditor-General on the Financial Statements of Kenya National Trading Corporation for the year ended 30 June 2018*

- (i) The Kapsabet plot was allocated to an individual and the Corporation has engaged the services of a legal firm to pursue ownership with the Kapsabet lands board. However, there was no documented outcome of the process availed for audit review.
- (ii) The management undertook a mapping exercise together with Kenya Railways Corporation in regard to Nanyuki plot and then requested Kenya Railways Corporation to fast track registration of the parcel.
- (iii) The management has been following up with the National Lands Commission for processing of title deed of the Nyahururu plot.

However, until the title deeds are processed and issued to the Corporation, the ownership of the properties cannot be confirmed.

### **1.2. Exclusion of Nakuru Municipality Plot**

As similarly reported in the previous year, plot No.6/42 in Nakuru town measuring 0.2788 Hectares whose title deed dated 29 October 2001 and registered in the name of the Corporation, was illegally apportioned to create plot No.6/158, without the knowledge of the Corporation. According to information available, the hived off plot was registered in the name of a private developer and a go-down constructed on it. The Corporation explained that it is fast tracking the issue through their lawyers, the National Lands Commission and Ethics and Anti-Corruption Commission.

### **1.3. Irregular Surrender of Loita Street Plot**

As similarly reported in the previous year, Loita Street Plot LR.209/103430 valued at Kshs.30,462,543 (1991) was irregularly surrendered to the Commissioner of Lands under unclear circumstances. Although management explained that it is working with the parent Ministry, the National Lands Commission and the Directorate of Criminal Investigation to revert the ownership of the Loita Street plot to the Corporation, no success has been reported in this regard. Further, this plot was excluded from the valuation of assets conducted in December 2014.

In view of the foregoing, it has not been possible to confirm the accuracy and ownership of the property, plant and equipment balance of Kshs.2,657,387,699 as at 30 June 2018.

## **2. Trade and Other Receivables**

As similarly reported in the previous years, the trade and other receivables balance of Kshs.105,506,396 as at 30 June 2018 includes an amount of Kshs.24,816,297 relating to various private debtors which have been outstanding since the year 1994. The receivables balance also includes an amount of Kshs.10,234,202 relating to claims receivable and Kshs.20,357,732 relating to government debtors which has similarly remained outstanding for a long period of time. As disclosed in Note 21 to the financial statements, other receivables balance of Kshs.83,584,817 includes rent receivable from Uchumi Supermarkets Limited amounting to Kshs.34,997,254 as at 30 June 2018. However,

information available indicates that the Supermarket is facing financial difficulties leading to existence of material uncertainty about its ability to continue as a going concern and thus making recoverability of the rent receivable of Kshs.34,997,254 doubtful.

Further, rent debtors comprised of ex-tenants with rent arrears totaling Kshs.3,198,930 which have remained outstanding for 4 years with minimal chances of recovering these amounts. The Corporation has made a specific provision of Kshs.24,362,180 to cover long outstanding debts.

In addition, the other receivables includes bounced cheques for rent receivable amounting to Kshs.2,449,947 which is still outstanding. Other Government agencies with debts are Nairobi City Water and Sewerage Company Limited, Kenya School of Government, Kenya Water Institute and National Police Service of Kenya which had a cumulative outstanding debt of Kshs.8,458,313.97.

Under the circumstances, it has not been possible to ascertain the recoverability of the trade and other receivables balance of Kshs.105,506,396 as at 30 June 2018.

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

### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

### **Other Matters**

#### **Financial Performance**

The Corporation recorded a loss of Kshs.10,112,782 (2016/2017- Kshs.12,804,177) which brought the cumulative losses to Kshs.236,740,416 as at 30 June 2018. As reported previous year, the Corporation is evidently experiencing liquidity challenges and its continued existence as a going concern is dependent on continued support from the Government and its creditors.

## **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 Qualified Opinion 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**

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 procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

## **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## **REPORT ON OTHER MATTERS PRESCRIBED BY THE KENYAN COMPANIES ACT, 2015**

As required by the Companies Act 2015 i report based on the audit, that;

- (i) I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit ;
- (ii) In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of these records ;
- (iii) The Company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the accounting records ; and
- (iv) In my opinion, the information given in the report of the directors is consistent with the financial statements.

## **Responsibilities of Management and Those Charged with Governance**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting 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 sustainability of services and using the applicable basis of accounting unless the management either intend to have the Corporation cease operations or have no realistic alternative but to do so.

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

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 money is applied in an effective manner.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity 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 review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review 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 policies and procedures may deteriorate.

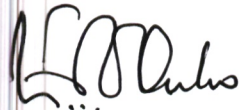
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Corporation to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Corporation to express an opinion on the financial statements.

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

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

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



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

**Nairobi**

**24 April 2019**

**XII. STATEMENT OF PROFIT & LOSS**

	Note	<u>2017/2018</u>	<u>2016/2017</u>
REVENUES		Kshs	Kshs
Sales	6	145,845,173	128,127,652
Cost of Sales	7	(127,402,246)	(109,671,038)
Gross Profit		<b>18,442,927</b>	<b>18,456,614</b>
Net Commission Income	8	17,755,960	21,720,640
<b>Trading Income</b>		<b>36,198,887</b>	<b>40,177,254</b>
Other Income	9	76,599,689	72,959,086
<b>Total Revenues</b>		<b>112,798,576</b>	<b>113,136,340</b>
<b>OPERATING EXPENSES</b>			
Administration Costs	10	32,538,177	23,898,449
Staff Costs	11	51,120,493	52,929,228
Directors Emoluments	12	4,897,005	7,538,576
Depreciation of Property & Equipment	13	28,888,581	28,648,641
Other Expenses	14	6,536,213	7,566,933
<b>Total Operating Expenses</b>		<b>123,980,469</b>	<b>120,581,827</b>
<b>Operating Profit/(Loss)</b>		<b>(11,181,892)</b>	<b>(7,445,487)</b>
Finance Costs	15	3,401,709	3,443,818
<b>Profit/(Loss) Before Taxation</b>		<b>(14,583,601)</b>	<b>(10,889,304)</b>
Income Tax Expense/(Credit)	16(a)	(4,470,819)	1,914,872
<b>Profit/(Loss) After Taxation</b>		<b>(10,112,782)</b>	<b>(12,804,177)</b>
Earnings per share – Basic and diluted	17	-32%	-40%
Dividends per Share		-	-


Kenya National Trading Corporation Ltd

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For the year ended June 30, 2018

XIII. STATEMENT OF FINANCIAL POSITION

		<u>2017/2018</u>	<u>Restated 2016/2017</u>	<u>2016/2017</u>
ASSETS	Note	Kshs	Kshs	Kshs
<b>Non-Current Assets</b>				
Property, plant and equipment	18	2,657,387,699	2,685,521,280	2,685,521,280
Intangible assets	19	13,111,556	880,400	880,400
<b>Total Non-Current Assets</b>		<b>2,670,499,255</b>	<b>2,686,401,680</b>	<b>2,686,401,680</b>
<b>Current Assets</b>				
Inventories	20	11,051,710	12,963,593	12,963,593
Trade and other receivables	21	105,506,396	*100,752,400	100,628,091
Income Tax Recoverable	16(c)	6,783,226	2,852,215	2,852,215
Bank and cash balances	22	709,926	1,489,599	1,489,599
<b>Total Current Assets</b>		<b>124,051,258</b>	<b>118,057,807</b>	<b>117,933,498</b>
<b>Total Assets</b>		<b>2,794,550,513</b>	<b>2,804,459,487</b>	<b>2,804,335,178</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and Reserves</b>				
Share Capital	23	32,000,000	32,000,000	32,000,000
Revaluations Reserve	24	2,810,642,777	2,810,642,777	2,810,642,777
Retained Earnings	25	(236,740,416)	(226,503,325)	(226,627,634)
<b>Capital and Reserves</b>		<b>2,605,902,361</b>	<b>2,616,139,452</b>	<b>2,616,015,143</b>
<b>Long Term Liabilities</b>				
Deferred Tax Liability	34	75,624,072	80,094,891	80,094,891
Rent Leases	32	7,910,008	4,504,328	4,504,328
<b>Total Non-Current Liabilities</b>		<b>83,534,080</b>	<b>84,599,219</b>	<b>84,599,219</b>
<b>Current Liabilities</b>				
ICDC Loans	26	512,865	3,962,736	3,962,736
Finance Leases	26	15,615,835	14,133,911	14,133,911
Trade and other payables	27	88,985,372	85,624,169	85,624,169
<b>Total Current Liabilities</b>		<b>105,114,073</b>	<b>103,720,816</b>	<b>103,720,816</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,794,550,513</b>	<b>2,804,459,487</b>	<b>2,804,335,178</b>

The financial statements were approved on 14<sup>th</sup> March 2019 and signed on its behalf by:

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

  
.....  
**Joel K. Imitira**  
Ag. Managing Director

  
.....  
**George Murathe**  
For Chairman

\*These are restated balances for the financial year 2016/2017 note 34.

**XIV. STATEMENT OF CHANGES IN EQUITY**

	<b>SHARE CAPITAL</b>	<b>REVALUATIONS RESERVE</b>	<b>RETAINED EARNINGS</b>	<b>TOTAL</b>
	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>
<b>Balance as at 30th June 2016</b>	32,000,000	2,890,737,668	(213,823,457)	2,708,914,211
Balance as at 1st July 2016	32,000,000	2,890,737,668	(213,823,457)	2,708,914,211
Deferred Tax on Revaluation		(80,094,891)		(80,094,891)
Net Profit/(Loss) for the year			(12,804,177)	(12,804,177)
<b>Balance as at 30th June 2017</b>	<b>32,000,000</b>	<b>2,810,642,777</b>	<b>(226,627,634)</b>	<b>2,616,015,143</b>
<b>Balance as at 1st July 2017</b>	32,000,000	2,810,642,777	(226,627,634)	2,616,015,143
Net Profit/(Loss) for the year			(10,112,782)	(10,112,782)
<b>Balance as at 30th June 2018</b>	<b>32,000,000</b>	<b>2,810,642,777</b>	<b>(236,740,416)</b>	<b>2,605,902,361</b>

**XV. STATEMENT OF CASHFLOWS**

	Note	<u>2017/2018</u>	<u>2016/2017</u>
		Kshs	Kshs
<b>Cash flows from Operating Activities</b>			
<b>Net Profit/(Loss) for the year</b>		(10,112,782)	(12,804,177)
<b>Adjustment for;</b>			
Depreciation	13	28,888,581	28,648,641
Provision for Staff Leave pay	28	2,829,362	2,585,985
Provision for obsolescence	30	30,043	(622,334)
Provision for bad & Doubtful debts	29	6,090,545	6,090,545
Interest Expense	31	3,401,709	4,406,202
Income Tax Expense /(Credit)	16(a)	(4,470,819)	1,914,872
<b>Deficit/Surplus before working capital changes</b>		<b>26,656,639</b>	<b>30,219,734</b>
Decrease/(Increase) in Trade & Other Receivables	21	(4,878,306)	(20,914,116)
Decrease/(Increase) in Inventories	20	1,911,884	(2,761,185)
Decrease/(Increase) in Income Tax Recoverable	16(c)	(3,931,011)	764,688
Increase/(Decrease) in Trade & Other Payables	27	3,361,204	15,373,323
<b>Deficit/Surplus After working capital changes</b>		<b>23,120,409</b>	<b>22,682,444</b>
Income Tax Paid	16(c)	(9,161,462)	(6,100,439)
Provision for Leave Pay	28	(2,631,494)	(1,319,487)
Interest Paid	31	(7,789,070)	(6,955,344)
<b>Net cash generated from/(used in) operating activities</b>		<b>3,538,384</b>	<b>8,307,174</b>
<b>Cash flows from Investing Activities</b>			
Purchase of Computers & Office Equipment	18	(755,000)	(62,382)
Purchase of Computer Software	19	(5,000,790)	-
Increase/(Decrease) in Rent lease deposits	32	3,405,680	(3,676,537)
<b>Net cash generated from/(used in) investing activities</b>		<b>(2,350,110)</b>	<b>(3,738,919)</b>
<b>Cash flows from Financing Activities</b>			
Net Increase (decrease) in Loans	26	(3,449,871)	574,611
Net Increase (decrease) in Finance Leases	26	1,481,924	(7,085,822)
<b>Net cash generated from/(used in) financing activities</b>		<b>(1,967,947)</b>	<b>(6,511,211)</b>
<b>Increase/(Decrease) In Cash &amp; Cash Equivalents</b>		<b>(779,673)</b>	<b>(1,942,956)</b>
<b>Cash &amp; Cash Equivalents at the beginning of the Year</b>	22	<b>1,489,599</b>	<b>3,432,555</b>
<b>Cash &amp; Cash Equivalents at the end of the Year</b>	22	<b>709,926</b>	<b>1,489,599</b>

**XVI. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS****FOR THE PERIOD ENDED 30<sup>TH</sup> JUNE 2017**

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	Performance Difference	Explanation Note
	2017-2018	2017-2018	2017-2018	2017-2018	2017-2018	2017-2018	
	Kshs	Kshs	Kshs	Kshs	Kshs	%	
<b>Revenue</b>							
Net Sales	23,455,000.00	(3,336,026.38)	20,118,974	18,442,927.11	(1,676,046.52)	-8%	1
Commission Income	32,400,000.00	(1,077,364.36)	31,322,635.64	17,755,960.23	(13,566,675.41)	-43%	2
Rental Income	82,503,000.00	(12,123,401.15)	70,379,598.85	73,862,202.68	3,482,603.83	5%	3
Profit from Sale of Fixed Assets	50,000,000.00	(50,000,000.00)	-	-	-		4
Transport Income	7,560,000.00	(6,310,336.00)	1,249,664.00	2,737,486.16	1,487,822.16	119%	5
Miscellaneous Income	-	1,080,000.00	1,080,000.00	-	(1,080,000.00)	-100%	6
<b>Total Income</b>	<b>195,918,000.00</b>	<b>(71,767,127.88)</b>	<b>124,150,872.12</b>	<b>112,798,576.18</b>	<b>(11,352,295.94)</b>	<b>-9%</b>	
<b>Expenses</b>							
Personnel Emoluments	62,900,000.00	(19,699,581.64)	43,200,418.36	51,120,493.08	(7,920,074.72)	-18%	7
Administration Costs	45,310,000.00	(16,274,171.00)	29,035,829.00	35,950,228.79	(6,914,399.79)	-24%	8
Board Expenses	6,000,000.00	3,820,745.60	9,820,745.60	4,897,004.96	4,923,740.64	50%	9
Repairs & Maintenance	53,500,000.00	(47,685,489.00)	5,814,511.00	3,124,160.43	2,690,350.57	46%	10
Depreciation	19,080,000.00	11,728,237.00	30,808,237.00	28,888,581.30	1,919,655.70	6%	11
Finance Cost	6,400,000.00	(2,768,884.00)	3,631,116.00	3,401,708.92	229,407.08	6%	
Taxation	1,440,000.00	(640,000.00)	800,000.00	(4,470,819.40)	5,270,819.40	659%	12
<b>Total Expenditure</b>	<b>194,630,000.00</b>	<b>(71,519,143.04)</b>	<b>123,110,856.96</b>	<b>122,911,358.08</b>	<b>199,498.88</b>	<b>0%</b>	
<b>Surplus for the Period</b>	<b>1,288,000.00</b>	<b>(247,984.84)</b>	<b>1,040,015.16</b>	<b>(10,112,781.91)</b>	<b>(11,152,797.06)</b>		

**BUDGET VS ACTUAL PERFORMANCE EXPLANATORY NOTES**

- 1. Net Sales:** This represents the gross profit earned from sale of products. The original budget was adjustment downwards due to forecasted sales revenues projected to be less than the budgeted amounts. The Performance difference of -27% arose when we were unable to meet our sales targets for the year.
- 2. Commission Income** was adjusted downwards to provide for the drop in commission sales due to lower stock levels by Tata Chemicals. The under-performance by 43% was because of stock outs occasioned by the supplier.
- Budgeted **Rental Income** was adjusted downwards by 12 million due to non-renewal of expired lease contracts by some tenants and slow uptake of vacant godowns by new tenants.
- The budgeted **sale of fixed assets** was not approved by the National Treasury.
- 5. Transport Income** was adjusted to Kshs. 1,249,664 from Kshs. 7,560,000 to provide for the unfavourable transport rates in the market.
- 6. Miscellaneous Income** Warehousing income was not initially budgeted for but was included in the adjusted budget after the board of directors approved the warehousing policy.

## Kenya National Trading Corporation Ltd

### Reports and Financial Statements

For the year ended June 30, 2018

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- 7. Personnel Emoluments** were adjusted downwards by kshs 19.7 million. By the end of the year, the vote was overspent by 23% due to salary adjustments as advised by SRC and employment of new staff members during the year.
- 8. Administration Costs** were adjusted downwards because of the projected underperformance of sales which are directly related. The budgeted amounts were underspent by 1.8 million because the adjusted sales revenues were not achieved.
- 9. Board Expenses** were adjusted upwards by Kshs 3.8 million in the adjustments to the budget. The adjustment was meant to cater for special board meetings expected in the year due to funding negotiations with the Ministry and the National Treasury.
- 10.** The original Budgeted **Repairs and maintenance** was dependent on a grant from the parent ministry for upgrading the godowns. The grant was however not received hence the adjustment in the amended budget. The vote was underspent by 42% when the Corporation was unable to raise funds for repairs.
- 11. Depreciation** was adjusted upwards by 11.7 million to provide for the assets valuation done at the end of the previous financial year.
- 12. Taxation** was adjusted downwards by 640,000 after a review of the performance in December. The corporation however spent 139% over the adjusted budget

## **XVII. NOTES TO THE FINANCIAL STATEMENTS**

### **1. GENERAL INFORMATION**

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

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements

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

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

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

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

**3. ADOPTION OF NEW AND REVISED STANDARDS****i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2018**

Standard/Amendment to a standard	Effective date	Impact
IFRS 15: Revenue from Contracts with Customers <i>(Issued 28 May 2014)</i>	1 <sup>st</sup> January 2018	The new standard, replaces IAS 11, IAS 18 and their interpretations (SIC-31 and IFRIC 13, 15 and 18). It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance. The application of this amendment did not result in any impact on the financial statements
<i>Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)</i> <i>(Issued 19 January 2016)</i>	1 <sup>st</sup> Jan 2017	Amends <u>IAS 12</u> <i>Income Taxes</i> to clarify the following aspects: <ul style="list-style-type: none"> <li>• Unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.</li> <li>• The carrying amount of an asset does not limit the estimation of probable future taxable profits.</li> <li>• Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.</li> <li>• An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilization of tax losses, an entity would assess a deferred tax asset in combination</li> </ul> <p>The application of this amendment did not result in any impact on the financial statements with other deferred tax assets of the same type.</p>
<i>Disclosure Initiative (Amendments to IAS 7)</i> <i>(Issued 29 January 2016)</i>	On or after 1 <sup>st</sup> January 2017.	Amends <u>IAS 7</u> <i>Statement of Cash Flows</i> to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The application of this amendment did not result in any impact on the financial statements
<i>Clarifications to IFRS 15 'Revenue from Contracts with Customers'</i> <i>(Issued 12 April 2016)</i>	1 <sup>st</sup> January 2018	Amends <u>IFRS 15</u> <i>Revenue from Contracts with Customers</i> to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.  The application of this amendment did not result in any impact on the financial statements

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Standard/Amendment to a standard	Effective date	Impact
<p><i>Transfers of Investment Property (Amendments to IAS 40)</i> (Issued 8 December 2016)</p>	<p>1<sup>st</sup> January 2018</p>	<p>The amendments to <u>IAS 40 Investment Property</u>:</p> <p>Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.</p> <p>The list of examples of evidence in paragraph 57(a) – (d) is now presented as a non-exhaustive list of examples instead of the previous exhaustive list</p> <p>The application of this amendment did not result in any impact on the financial statements</p>
<p>Amendment to IFRS 7 (<i>Annual Improvements to IFRSs 2012–2014 Cycle</i>), issued in September 2014</p>	<p>1<sup>st</sup> Jan 2016</p>	<p>The amendment, applicable to annual periods beginning on or after 1 January 2016, adds guidance to clarify whether a servicing contract is continuing involvement in a transferred asset.</p> <p>The amendment did not result in any impact on the financial statements.</p>
<p>IFRS 9 <i>Financial Instruments</i> (issued in July 2014)</p>	<p>1<sup>st</sup> January 2018</p>	<p>This standard will replace IAS 39 (and all the previous versions of IFRS 9). It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and de recognition:</p> <ul style="list-style-type: none"> <li>• IFRS 9 requires all recognised financial assets to be subsequently measured at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.</li> <li>• For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch</li> <li>• For the impairment of financial assets, IFRS 9 introduces an "expected credit loss" model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognised.</li> </ul> <p>The application of this amendment did not result in any impact on the financial statements</p>

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**ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018**

<b>Standard</b>	<b>Effective Date</b>	<b>Impact</b>
<i>IFRS 16: Leases (Issued 13 January 2016)</i>	1 Jan 2019	IFRS 16 specifies how an IFRS reporter will recognize, measure, present and discloses leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.
<i>IFRIC 23: Uncertainty over Income Tax Treatments (Issued 7 June 2017)</i>	1 Jan 2019	The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: <ul style="list-style-type: none"><li>• Whether tax treatments should be considered collectively</li><li>• Assumptions for taxation authorities' examinations</li><li>• The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates</li><li>• The effect of changes in facts and circumstances</li></ul>

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

**iii) Early adoption of standards**

The Corporation did not early – adopt any new or amended standards in year 2018.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**a) Revenue recognition**

Revenue is recognized to the extent that it is probable that future economic benefits will flow to the Corporation and the revenue can be reliably measured. Revenue is recognized at the fair value of consideration received or expected to be received in the ordinary course of the Corporation's activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the Corporation's activities as described below.

- i) **Revenue from the sale of goods and services** is recognized in the year in which the Corporation delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) **Rental income** is recognized in the income statement as it accrues using the effective lease agreements.
- iii) **Commission income** is recognized as it accrues.
- iv) **Miscellaneous income** comprises interest receivable from bank deposits, insurance compensation, and investment in securities, and is recognized in profit or loss on a time proportion basis using the effective interest rate method.

**b) In-kind contributions**

In-kind contributions are donations that are made to the Corporation in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the Corporation includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

**c) Property, plant and equipment**

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses.

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement.

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognized in profit or loss in the income statement.

**d) Depreciation and impairment of property, plant and equipment**

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the costs of ongoing but incomplete works on buildings and other civil works and installations.

Depreciation on property, plant and equipment is recognized in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

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

A full year's depreciation charge is recognized both in the year of asset purchase and in the year of asset disposal.

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

**e) Intangible assets**

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

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

Amortization is calculated on the straight-line basis over the estimated useful life of computer software of three years.

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

**g) Investment property**

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

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### h) Finance and operating leases

Leases which confer substantially all the risks and rewards of ownership to the entity are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, and the asset is subsequently accounted for in accordance with the accounting policy applicable to that asset.

All other leases are treated as operating leases and the leased assets are recognised in the statement of financial position to the extent of prepaid lease rentals at the end of the year. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.

### i) Fixed interest investments (bonds)

Fixed interest investments refer to investment funds placed under Central Bank of Kenya (CBK) long-term infrastructure bonds and other corporate bonds with the intention of earning interest income upon the bond's disposal or maturity. Fixed interest investments are freely traded at the Nairobi Securities Exchange. The bonds are measured at fair value through profit or loss.

### j) Quoted investments

Quoted investments are classified as non-current assets and comprise marketable securities traded freely at the Nairobi Securities Exchange or other regional and international securities exchanges. Quoted investments are stated at fair value.

### k) Unquoted investments

Unquoted investments stated at cost under non-current assets, and comprise equity shares held in other Government owned or controlled entities.

### l) Inventories

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

### m) Trade and other receivables

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### n) Taxation

#### ***Current income tax***

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

#### ***Deferred tax***

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

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

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

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

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

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 entity and the same taxation authority.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### **o) Cash and cash equivalents**

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

### **p) Borrowings**

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

### **q) Trade and other payables**

Trade and other payables are non-interest bearing and are carried at amortized cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the Corporation or not, less any payments made to the suppliers.

### **r) Retirement benefit obligations**

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

The Corporation also contributes to the National Social Security Fund (NSSF). The company's contributions to the defined contribution scheme and NSSF are charged to the profit & loss account in the year to which they relate. The corporation's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs. 200 per employee per month.

### **s) Provision for staff leave pay**

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

### **t) Exchange rate differences**

The accounting records are maintained in the functional currency of the primary economic environment in which the Corporation operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

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

**u) Budget information**

The original budget for FY 2017-2018 was approved by the PS in the Ministry of Industry, Trade and Co-operatives in February 2017. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Corporation upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Corporation recorded additional appropriations on the 2017-2018 budget following the Board of Directors' approval.

The Corporation's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

**v) Comparative figures**

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

**w) Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2018.

## 5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

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.

### Estimates and assumptions

The Corporation based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Corporation. Such changes are reflected in the assumptions when they occur.

### Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

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

### Provisions

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

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

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

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

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

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

	<u>2017/2018</u>	<u>2016/2017</u>
	Kshs	Kshs
<b>6 SALES</b>		
Local Sales (Gross)	165,044,908	128,127,652
Exports	-	-
Less VAT on sales	<u>(19,199,736)</u>	<u>                    </u>
<b>Total</b>	<b>145,845,173</b>	<b>128,127,652</b>
<b>7 COST OF SALES</b>		
Cost of Sales	127,402,246	109,048,704
Cost of Disposed Items	-	<u>622,334</u>
	<b>127,402,246</b>	<b>109,671,038</b>
<b>8 COMMISSION INCOME</b>		
Commission Earned	20,614,512	23,628,719
Less Handling Costs related to commission income	<u>(2,858,552)</u>	<u>(1,908,079)</u>
<b>Net Commission Income</b>	<b>17,755,960</b>	<b>21,720,640</b>
<b>9 OTHER INCOME</b>		
Rent Income	73,862,203	67,537,199
Decrease in provision for Obsolescence	-	622,334
Miscellaneous Income	-	3,951,155
Transport Income	<u>2,737,486</u>	<u>848,398</u>
<b>Total</b>	<b>76,599,689</b>	<b>72,959,086</b>
<b>10 ADMINISTRATION COSTS</b>		
Electricity	453,699	461,307
Water	189,738	198,057
Telephone & Postage	1,416,504	1,653,944
Legal & Professional Fees	1,341,724	316,552
Licences	467,310	456,533
Printing & Stationery	1,130,718	1,168,420
Publications & Advertising	851,123	883,589

<b>10 ADMINISTRATION COSTS</b>	<b><u>2017/2018</u></b>	<b><u>2016/2017</u></b>
Education & Training	583,382	298,709
Insurance	2,985,168	3,363,562
Property Repairs & Maintenance	182,228	250,143
Office Equipment Repairs	193,100	77,880
Motor Vehicle Expenses	2,748,833	3,061,718
Rent & Rates	5,250,176	5,783,777
Travelling & Entertainment other staff	5,794,672	5,436,854
Staff Welfare Expenses	2,963,235	3,391,979
Security	5,507,400	5,368,996
Subscriptions & Memberships	127,600	190,700
Bank Charges	<u>351,566</u>	<u>364,563</u>
	<b><u>32,538,177</u></b>	<b><u>23,898,449</u></b>

<b>11 STAFF COSTS</b>		
Salaries & Wages	43,057,109	37,315,963
N.S.S.F.	142,400	130,800
Pension & Gratuities	2,269,908	1,741,481
Medical Expenses	2,821,714	2,326,167
Travelling & Entertainment other staff		5,436,854
Staff Welfare Expenses		3,391,979
Provision for Leave Pay	<u>2,829,362</u>	<u>2,585,985</u>
	<b><u>51,120,493</u></b>	<b><u>52,929,228</u></b>

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

Permanent Employees - Management	58	58
Permanent Employees - Unionisable	-	1
Temporary & Contract Employees	1	1
<b>Total</b>	<b>59</b>	<b>60</b>

<b>12 DIRECTORS' EMOLUMENTS</b>		
Board Travel & Entertainment	1,326,405	2,248,301
Board Sitting Allowances	2,520,000	3,846,000
Chairman's Honoraria	-	1,044,000
Board Medical Expenses	<u>1,050,600</u>	<u>400,275</u>
	<b><u>4,897,005</u></b>	<b><u>7,538,576</u></b>

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	<u>2017/2018</u>	<u>2016/2017</u>
<b>13 DEPRECIATION</b>		
Depreciation of Property plant & Equipment	28,888,581	28,648,641
<b>14 OTHER EXPENSES</b>		
Miscellaneous Expenses	29,584	239,233
V.A.T	186,040	74,771
Audit Fees	200,000	200,000
Increase in Provision for obsolence	30,043	-
Increase in Provision for Doubtful Debts	6,090,545	6,090,545
Interest on Rent & Rates	-	962,384
	<u><b>6,536,213</b></u>	<u><b>7,566,933</b></u>
<b>15 FINANCE COSTS</b>		
Interest expense on Loans & Finance leases	3,401,709	3,443,818
	<u><b>3,401,709</b></u>	<u><b>3,443,818</b></u>
<b>16(a) INCOME TAX EXPENSE/(CREDIT)</b>		
Income tax on profits calculated at domestic rate - 30% (2016: 30%)	-	-
Current Tax: Prior year under/(over) provision		1,267,954
Current year deferred tax charge (note 34)	(4,470,819)	323,459
Under/(over) provision of deferred tax in prior years		323,459
<b>Income Tax Charge/ (Credit)</b>	<u><b>(4,470,819)</b></u>	<u><b>1,914,872</b></u>
<b>16 (b) Reconciliation of tax expense /(credit) to the expected tax based on accounting profit</b>		
Profit before tax	(14,583,601)	(10,889,304)
Tax at applicable tax rate 30%	(4,375,080)	(3,266,791)
Current tax: 2016/2017 under provision	(3,265,996)	1,267,954
Tax effects on expenses not deductible for tax purposes	11,342,546	12,279,925
Tax effects on income not taxable	-	(186,700)
Tax effects of excess capital allowances over depreciation/armotization	(8,172,290)	(8,179,515)
Deferred tax prior year over-provision	-	-
	<u><b>(4,470,819)</b></u>	<u><b>1,914,872</b></u>

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<b>16(c) TAX RECOVERABLE</b>	<b><u>2017/2018</u></b>	<b><u>2016/2017</u></b>
At the beginning of the year	(2,852,215)	(3,616,903)
Income tax Charge/(Credit) for the year-note 16(a)	-	1,914,872
Under/(over) provision in prior years	5,230,450	4,950,255
Income Tax Paid during the year	<u>(9,161,462)</u>	<u>(6,100,439)</u>
<b>At the end of the year</b>	<b><u>(6,783,226)</u></b>	<b><u>(2,852,215)</u></b>

**17 EARNINGS PER SHARE**

The earnings per share is calculated by dividing the profit after tax by the average number of ordinary shares in issue during the year of 32,000,000. There were no dilutive or potentially dilutive ordinary shares as at the reporting date. The corporation reported a loss of ksh 10.1 Million during the financial year.

**18 SCHEDULE OF PROPERTY, PLANT AND EQUIPMENT**

DESCRIPTION	LAND	BUILDINGS	MACHINERY AND OFFICE EQUIPMENT	COMPUTERS	FURNITURE & FITTINGS	MOTOR VEHICLES	TOTAL
<b>COST OR VALUATION</b>							
As at 1st July 2016	1,729,672,540	1,000,612,200	2,839,980	2,598,000	3,096,000	34,400,000	2,742,756,180
Additions			62,382				62,382
Less Provision for Loss on Loita Street Plot	(30,462,540)						(30,462,540)
<b>As at 30th June 2017</b>	<b>1,699,210,000</b>	<b>1,000,612,200</b>	<b>2,902,362</b>	<b>2,598,000</b>	<b>3,096,000</b>	<b>34,400,000</b>	<b>2,742,818,562</b>
<b>DEPRECIATION</b>							
As at 1st July 2016	-	20,012,244	425,997	866,000	464,400	6,880,000	28,648,641
Charge for the year		20,012,244	425,997	866,000	464,400	6,880,000	28,648,641
<b>As at 30th June 2017</b>	<b>-</b>	<b>40,024,488</b>	<b>851,994</b>	<b>1,732,000</b>	<b>928,800</b>	<b>13,760,000</b>	<b>57,297,282</b>
<b>NET BOOK VALUE</b>							
As at 30th June 2017	1,699,210,000	960,587,712	2,050,368	866,000	2,167,200	20,640,000	2,685,521,280
<b>2017-2018</b>							
<b>COST OR VALUATION</b>							
As at 1st July 2017	1,729,672,540	1,000,612,200	2,902,362	2,598,000	3,096,000	34,400,000	2,773,281,102
Additions			115,000	640,000.00			755,000
Less Provision for Loss on Loita Street Plot	(30,462,540)						(30,462,540)
<b>As at 30th June 2018</b>	<b>1,699,210,000</b>	<b>1,000,612,200</b>	<b>3,017,362</b>	<b>3,238,000</b>	<b>3,096,000</b>	<b>34,400,000</b>	<b>2,743,573,562</b>
<b>DEPRECIATION</b>							
As at 1st July 2017	-	40,024,488	851,994	1,732,000	928,800	13,760,000	57,297,282
Charge for the year		20,012,244	452,604	1,079,333	464,400	6,880,000	28,888,581
<b>As at 30th June 2018</b>	<b>-</b>	<b>60,036,732</b>	<b>1,304,598</b>	<b>2,811,333</b>	<b>1,393,200</b>	<b>20,640,000</b>	<b>86,185,863</b>
<b>NET BOOK VALUE</b>							
As at 30th June 2018	1,699,210,000	940,575,468	1,712,764	426,667	1,702,800	13,760,000	2,657,387,699

a) Loita Street plot LR.209/103430 valued at ksh 30,462,543.5 in the accounts was irregularly surrendered to commissioner of lands in November 1991.

b) Part of Nakuru plot LR.6/158 was irregularly acquired by a private developer and a godown constructed on it.

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

**19 INTANGIBLE ASSETS**

Intangible assets represent computer software that is not fully implemented.

Cost	13,111,556	880,400
Amortization	-	-
Written down Value	<u>13,111,556</u>	<u>880,400</u>

**20 INVENTORIES**

	<u>2017/2018</u>	<u>2016/2017</u>
Inventories	11,287,844	13,169,684
Provision for Obsolescence	(236,134)	(206,091)
	<u>11,051,710</u>	<u>12,963,593</u>

**21 TRADE & OTHER RECEIVABLES**

	<u>2017/2018</u>	<u>Restated 2016/2017</u>	<u>2016/2017</u>
<b>TRADE RECEIVABLES</b>			
Private Debtors	24,816,297	24,816,297	24,816,297
Government Debtors	20,357,732	*26,198,118	26,073,809
Sundry Debtors	1,109,730	53,925	53,925
Prepaid Stock	-	-	-
Less Provision for Doubtful debts	(24,362,180)	(18,271,635)	(18,271,635)
<b>Total Trade Receivables</b>	<u>21,921,579</u>	<u>32,796,705</u>	<u>32,672,396</u>
<b>(b) OTHER RECEIVABLES</b>			
Rent Receivable	62,552,530	33,635,401	33,635,401
Commission receivable	1,846,748	13,396,762	13,396,762
Transport Receivable	32,271	1,774,872	1,774,872
Staff Welfare Scheme	32,585	77,010	77,010
Receivable bank Guarantees	1,000,000	1,000,000	1,000,000
A/c Receivable D.I.T.	603,182	603,182	603,182
Salary advance	-	49,475	49,475
Travel Advance	810,947	571,900	571,900
Claims Receivable	10,234,202	11,746,270	11,746,270
Bounced Cheques receivable	2,449,947	2,949,946	2,949,947
Prepaid Expenses	296,607	313,737	313,737
Prepaid Insurance	1,393,983	1,376,187	1,376,187
Deposits	961,442	850,920	850,920
VAT Recoverable	1,370,375	(389,967)	(389,968)
	<u>83,584,817</u>	<u>67,955,695</u>	<u>67,955,695</u>
<b>Total Trade &amp; Other Receivables</b>	<u>105,506,396</u>	<u>100,752,400</u>	<u>100,628,091</u>

- \* Restated amounts note 34

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At June 30 2018, the ageing analysis of the receivables was as follows:

	<u>2017/2018</u>	<u>2016/2017</u>
Less than 30 days	13,171,825	17,612,748
Between 30 and 60 days	7,842,262	3,198,887
Between 61 and 90 days	3,754,504	3,920,098
Between 91 and 120 days	7,550,103	29,348,841
Over 120 days	71,733,585	64,819,153

**22 BANK AND CASH BALANCES**

Cash at Bank	(102,570.79)	480,206.50
Cash in Hand	812,496.97	1,009,392.50
	<u>709,926.18</u>	<u>1,489,599.00</u>

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

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

Financial institution	Account number	2017-2018	2016-2017
		KShs	KShs
<b>a) Current account</b>			
Barclays Bank	0701788990	388,751.30	1,972,844
National Bank	01003002924900	79,836.17	1,164,093
Co-operative Bank	01136028861700	(572,572.21)	(2,662,104)
Co-operative Bank	01136028861701	1,413.95	5,374
<b>Sub- total</b>		<b>(102,570.79)</b>	<b>480,207</b>
<b>b) Others</b>			
Petty Cash Balances		109,586.50	193,944
Undeposited Funds		-	7,670
M pesa		702,910.47	807,779
<b>Sub- total</b>		<b>812,496.97</b>	<b>1,009,393</b>
<b>Grand total</b>		<b>709,926.18</b>	<b>1,489,599</b>

**23 SHARE CAPITAL**

	<u>2017/2018</u>	<u>2016/2017</u>
Ordinary shares Issued and fully paid		
1.6million shares of ksh.20 each	32,000,000	32,000,000

## 24 REVALUATIONS RESERVE

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

	<u>2017/2018</u>	<u>2016/2017</u>
Balance as at 1st July 2016	2,810,642,777	2,890,737,668
Deferred Tax Liability on Revaluation	-	(80,094,891)
Balance as at 30th June 2017	<u>2,810,642,777</u>	<u>2,810,642,777</u>

## 25 RETAINED EARNINGS

The retained earnings represent amounts available for distribution to the entity's shareholders. Undistributed retained earnings are utilised to finance the Corporation's business activities. The retained earnings are as per the statement of changes in Equity.

## 26. BORROWINGS

### Finance Leases

	<u>2017/2018</u>	<u>2016/2017</u>
Balance at the beginning of the year	14,133,911	21,219,733
Interest Accrued during the year	2,976,539	1,567,059
Additional Borrowing during the year	2,090,974	2,064,281
Repayments of Finance Leases during the year	(3,585,589)	(10,717,162)
Finance Lease balance at end of the year	<u>15,615,835</u>	<u>14,133,911</u>
Less Amounts Due within 1 Year (Current Portion)	15,615,835	14,133,911
Amounts Due after 1 Year (Non-Current Portion)	-	-

### ICDC Loans

Balance at the beginning of the year	3,992,737	3,388,125
Interest Accrued during the year	425,170	574,611
Repayments of Loans during the year	(3,905,042)	-
ICDC Loan balance at end of the year	<u>512,865</u>	<u>3,962,736</u>
Less Amounts Due within 1 Year (Current Portion)	(512,865)	(3,962,736)
Amounts Due after 1 Year (Non-Current Portion)	-	-

The analyses of both Finance leases and Loans are as follows:

Kshs 24.18 million Finance Lease from ICDC	13,952,551	12,179,449
Kshs Insurance financing from Co-op bank	1,663,284	1,954,462
Kshs 25 million Loan from ICDC	512,865	3,992,737
Kshs 20 million Loan from ICDC	-	(30,001)
<b>Total</b>	<u><b>16,128,700</b></u>	<u><b>18,096,647</b></u>

<b>27. TRADE &amp; OTHER PAYABLES</b>	<b><u>2017/2018</u></b>	<b><u>2016/2017</u></b>
Trade Payables	38,935,757	54,386,415
Accrued Charges	36,332,454	19,071,111
Accrued Audit Fees	1,700,000	1,500,000
Claims Payable	264,688	822,616
Accrued Leave Days	4,684,878	4,487,010
Salary Withholdings	1,274,616	1,046,947
Accrued Directors Fees	274,000	274,000
Accrued Gratuity/Pension	763,315	615,193
Statutory Creditors	1,500,029	686,567
Withholding VAT	3,255,634	2,734,310
	<b><u>88,985,372</u></b>	<b><u>85,624,169</u></b>
<b>28. PROVISION FOR STAFF LEAVE PAY</b>		
Provision for leave pay b/f	4,487,010	3,220,513
Additional provision for the year	2,829,362	2,585,985
Leave paid out or utilised during the year	(2,631,494)	(1,319,487)
Provision for leave pay c/f	<b><u>4,684,878</u></b>	<b><u>4,487,010</u></b>
Provision for annual leave pay is based on services rendered by full-time employees up to the end of the year.		
<b>29. PROVISION FOR BAD DEBTS</b>		
Provision for bad debts b/f	18,271,635	12,181,090
Additional provision at end of year	6,090,545	6,090,545
Provision for bad debts c/f	<b><u>24,362,180</u></b>	<b><u>18,271,635</u></b>
<b>30 PROVISION FOR INVENTORIES</b>		
Provision for Inventories b/f	206,091	828,425
Additional provision at end of year	30,043	(622,334)
Provision for inventories c/f	<b><u>236,134</u></b>	<b><u>206,091</u></b>
<b>31 INTEREST PAID</b>		
Arrears of interest b/f	9,051,738	3,566,265
Interest charge for the year	3,401,709	3,443,818
Interest Paid for the Year	(7,789,070)	(6,955,344)
Arrears of interest c/f	<b><u>4,664,377</u></b>	<b><u>54,738</u></b>

**Kenya National Trading Corporation Ltd**

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**For the year ended June 30, 2018**

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<b>32 RENT LEASE DEPOSITS</b>	<b><u>2017/2018</u></b>	<b><u>2016/2017</u></b>
Rent lease deposits b/f	(4,504,328)	(8,180,865)
Deposits by tenants		1,547,803
Refunds paid to Tenants		(5,224,340)
Rent lease deposits c/f	<b><u>(7,910,008)</u></b>	<b><u>(4,504,328)</u></b>

**33 RELATED PARTY TRANSACTIONS**

**Borrowings**

ICDC Loans & ICDC Finance Leases balance	13,439,686	8,216,713
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**Employer Contributions to**

NSSF	142,400	130,800
Defined contribution pension scheme	2,269,908	1,741,481

**Key management compensation**

Salaries and other short-term employment benefits	8,120,306	8,120,306
Pension and gratuity	522,426	522,426

**Directors' remuneration**

Fees for services as a director	3,846,405	7,138,301
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**Sales to Employees through Staff Welfare scheme**

Sales for the year	78,850	78,850
Staff Welfare scheme c/f	32,585	77,010

**34. PRIOR YEAR ADJUSTMENT**

The amount for Trade receivables for financial year 2016/2017 was adjusted by Ksh. 124,309 to correct an omission in the financial statements.

**35. CONTINGENT LIABILITIES**

The Corporation also discloses the following:-

- i) Tax assessment by KRA of Kshs. 132 million has been disputed by the Corporation and engaged consultants for taxation services. The same has been disclosed as a contingent liability

**36. FINANCIAL RISK MANAGEMENT**

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

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

**Kenya National Trading Corporation Ltd****Reports and Financial Statements****For the year ended June 30, 2018****(i) Credit risk**

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

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

	<b>Total amount</b>	<b>Fully performing</b>	<b>Past due</b>	<b>Impaired</b>
	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>
<b>At 30 June 2018</b>				
Receivables from non- exchange transactions	105,506,396	24,768,591	11,304,607	69,433,198
Bank balances	709,926	709,926		
<b>Total</b>	<b>106,216,323</b>	<b>25,478,517</b>	<b>11,304,607</b>	<b>69,433,198</b>
<b>At 30 June 2017</b>				
Receivables from non- exchange transactions	94,537,546	24,731,732	33,268,938	36,536,875
Bank balances	1,489,599	1,489,599		
<b>Total</b>	<b>96,027,145</b>	<b>26,221,331</b>	<b>33,268,938</b>	<b>36,536,875</b>

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

The Corporation has significant concentration of credit risk on amounts due from government institutions. The board of directors sets the corporation's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

**ii) Liquidity risk management**

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

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

**Kenya National Trading Corporation Ltd**

**Reports and Financial Statements**

**For the year ended June 30, 2018**

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
<b>At 30 June 2018</b>				
Trade payables	26,158,663	13,501,245	2,531,483	42,191,391
Other Payables	27,771,222	4,628,537	6,171,383	38,571,142
Current portion of borrowings	1,258,581	3,775,742	10,068,647	15,102,970
Provisions	626,541	1,171,220	27,485,432	29,283,192
Employee benefit obligation	8,222,839			8,222,839
<b>Total</b>	<b>64,037,845</b>	<b>23,076,744</b>	<b>46,256,945</b>	<b>133,371,535</b>
<b>At 30 June 2017</b>				
Trade payables	35,414,849	18,278,632	3,427,243	57,120,724
Other Payables	15,600,763	2,600,127	3,466,836	21,667,727
Current portion of borrowings	847,598	2,542,794	6,780,783	10,171,175
Provisions	(42,326)	1,121,752	27,353,520	28,432,947
Employee benefit obligation	6,835,717			6,835,717
<b>Total</b>	<b>58,656,602</b>	<b>24,543,305</b>	<b>41,028,383</b>	<b>124,228,290</b>

**(iii) Market risk**

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

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

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

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

**iv). Capital Risk Management**

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

	<b>2017-2018</b>	<b>2016-2017</b>
	<b>Kshs</b>	<b>Kshs</b>
Revaluation reserve	2,810,642,777	2,810,642,777
Retained earnings	(236,740,416)	(226,627,634)
Capital reserve	32,000,000	32,000,000
<b>Total funds</b>	<b>2,605,902,361</b>	<b>2,616,015,143</b>
Total borrowings	16,098,699	18,096,647
Less: cash and bank balances	(709,926)	(1,489,599)
Net debt/(excess cash and cash equivalents)	15,388,773	16,607,048
<b>Gearing</b>	<b>4%</b>	<b>4%</b>

**37 INCORPORATION**

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

**38 EVENTS AFTER THE REPORTING PERIOD**

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

**39 CURRENCY**

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

**XVIII. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**

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

<b>Audit Query Ref No.</b>	<b>Issue/Observations from the Auditor General</b>	<b>Management Comments</b>	<b>Focal Point person to Resolve the Issue</b>	<b>Status</b>
1.1	<b>Lack of Land Ownership Documents</b> Three Parcels of land situated in Nanyuki, Nyahururu and Kapsabet valued at Kshs. 5,600,000 did not have ownership documents.	The management is fast tracking the issue through KNTC lawyers, the National Lands Commission, Kenya Railways and the EACC to ensure the documents are obtained.	Corporate Affairs and Legal Services Officer.	In progress
1.2	<b>Nakuru Municipality Plot</b> Plot No 6/42 in Nakuru Municipality measuring 0.2788ha and registered in the name of the Corporation was illegally apportioned to create plot No. 6/158 and registered in the name of a private developer.	The management is fast tracking the issue through KNTC lawyers and the National Lands Commission	Corporate Affairs and Legal Services Officer	In Progress
1.3	<b>Loita Street Plot</b> Loita Street Plot L.R.209/103430 was irregularly surrendered to the Commissioner of Lands under unclear circumstances and no efforts are being made to recover the plot	The management is fast tracking the issue with the National Lands Commission and the DCI	Corporate Affairs and Legal Services Officer	In Progress
2.1	<b>Trade and Other Receivables</b> Trade and other receivables balance includes an amount of kshs 24,816,298 relating to various private debtors which has been outstanding since 1994. Further, rental debtors comprised of ex-tenants with rent arrears totalling to ksh 2,473,573 have remained outstanding for long with minimal chances of recovering these amounts.	The management has increased the provision for bad and doubtful debts and developed a write off policy. Implementation will commence once all the necessary approvals have been obtained	Finance & Accounts Manager	In Progress
2.2	Included in the accounts receivable are bounced cheques for rent receivable of kshs. 3,999,947 for which the corporation has filed a court case whose outcome is yet to be determined	The court ruled in favour of the Corporation and the defaulting customer has started repaying. The balance as at 30 <sup>th</sup> June 2018 was kshs 2,449,947	Corporate Affairs and Legal Services Officer	In Progress
3	Finance of 25 million was obtained from ICDC of this the principal was paid leaving an interest balance of 2,217,809. The amount remained unpaid and has continued to accrue interest of 3,992,737	The management has since embarked on repaying this interest and the balance as at 30 <sup>th</sup> June 2018 is 482,864	Finance and Accounts Manager	In progress

**XIX. Appendix 1: PROJECTS IMPLEMENTED BY THE CORPORATION**

**Projects**

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

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

**Status of Projects completion**

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

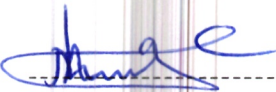
**Appendix 2: INTER-ENTITY TRANSFERS**

ENTITY NAME:		KENYA NATIONAL TRADING CORPORATION LTD	
Break down of Transfers from the State Department of Trade			
FY 17/18			
<b>a. Recurrent Grants</b>			
		Bank Statement Date	Amount (KShs) 2017/2018
N/A			
		<b>Total</b>	
<b>b. Development Grants</b>			
		Bank Statement Date	Amount (KShs) 2017/2018
N/A			
		<b>Total</b>	
<b>c. Direct Payments</b>			
		Bank Statement Date	Amount (KShs) 2017/2018
N/A			
		<b>Total</b>	
<b>d. Donor Receipts</b>			
		Bank Statement Date	Amount (KShs) 2017/2018
N/A			
		<b>Total</b>	

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

**Finance & Accounts Manager**

**Head of Accounting Unit  
 Ministry of Industry Trade & Co-operatives**

Sign 

Sign-----

## XX. Appendix 3: TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Name of the MDA/Donor Transferring the funds	Date received as per bank statement	Nature: Recurrent/Development/Others	Total Amount - KES	Where Recorded/recognized					Total Transfers during the Year
				Statement of Financial Performance	Capital Fund	Deferred Income	Receivables	Others - must be specific	
	N/A								N/A