

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

*Paper laid*  
*By the Hon James*  
*Kamau on*  
*Tuesday, 24/11/15*  
*[Signature]*



**REPORT**

**OF**

**THE AUDITOR-GENERAL**

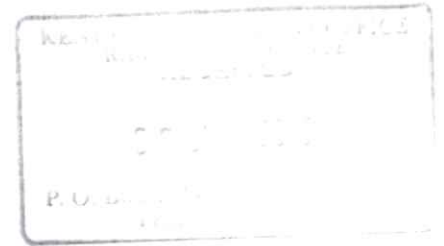
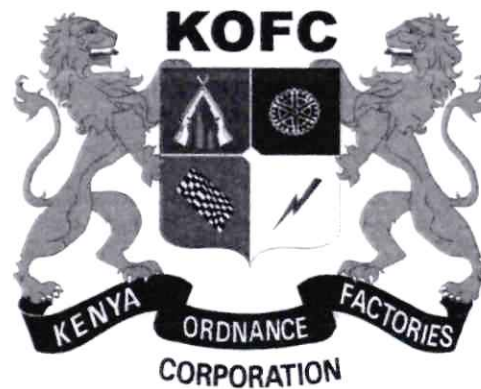
**ON**

**THE FINANCIAL STATEMENTS OF  
KENYA ORDNANCE FACTORIES  
CORPORATION**

**FOR THE YEAR ENDED  
30 JUNE 2014**



**CONFIDENTIAL**



**KENYA ORDNANCE  
FACTORIES  
CORPORATION**

**ANNUAL REPORT  
AND  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
30 JUNE 2014**

**CONFIDENTIAL**

<b>TABLE OF CONTENTS</b>	<b>PAGE</b>
<b>KEY ENTITY INFORMATION AND MANAGEMENT</b>	<b>1 to 3</b>
<b>THE BOARD OF DIRECTORS</b>	<b>4</b>
<b>MANAGEMENT TEAM</b>	<b>5</b>
<b>CORPORATE GOVERNANCE STATEMENT</b>	<b>6 to 7</b>
<b>CORPORATE SOCIAL RESPONSIBILITY (CSR)</b>	<b>8</b>
<b>STATEMENT OF DIRECTORS RESPONSIBILITIES</b>	<b>9 to 10</b>
<b>REPORT OF INDEPENDENT AUDITORS ON KENYA ORDNANCE</b>	<b>11 to 12</b>
<b>STATEMENT OF FINANCIAL PERFORMANCE</b>	<b>13</b>
<b>STATEMENT OF FINANCIAL POSITION</b>	<b>14</b>
<b>STATEMENT OF CHANGES IN NET ASSETS</b>	<b>15</b>
<b>STATEMENT OF CASH FLOWS</b>	<b>16</b>
<b>STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS</b>	<b>17 to 19</b>
<b>NOTES TO THE FINANCIAL STATEMENTS</b>	<b>20 to 40</b>
<b>PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATION</b>	<b>41 to 43</b>

## **CORPORATE INFORMATION**

### **INCORPORATION**

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

KOFC is a licensed ammunition dealer and water undertaker.

### **MANDATE**

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

### **VISION**

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

### **MISSION**

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

### **OBJECTIVES**

KOFC has established its objectives as follows;

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

## **ISO CERTIFICATION**

KOFC is ISO 9001-2008 CERTIFIED. The certificates registration number KEBS/SCS/RF/04 was issued by the Kenya Bureau of Standards on the 30<sup>th</sup> September 2009.

### **REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS**

RTS NGANO PROJECT  
KITALE ELDORET ROAD  
P. O. Box 6634 - ELDORET  
KENYA

### **BANKERS**

CO-OPERATIVE BANK OF KENYA  
ELDORET BRANCH  
P. O. Box 2948 30100 - ELDORET  
KENYA

KENYA COMMERCIAL BANK  
UGANDA ROAD BRANCH  
P. O. BOX 5197 30100 - ELDORET  
KENYA

EQUITY BANK OF KENYA  
ELDORET BRANCH  
P.O. BOX 2201 30100 - ELDORET  
KENYA

### **LAWYERS/ADVOCATES**

MINISTRY OF DEFENCE REPRESENTATIVE (DOD LEGAL)  
AND  
OMONDI AND COMPANY ADVOCATES  
P.O. BOX 4440  
NATIONAL BANK BUILDING  
2<sup>ND</sup> FLOOR  
ELDORET

## **INDEPENDENT AUDITOR**

**THE AUDITOR - GENERAL  
KENYA NATIONAL AUDIT OFFICE  
ANNIVERSARY TOWER  
P. O. BOX 30084 - NAIROBI  
KENYA**

## **DIRECTORS REPORT**

The directors present the audited financial statements for the year ended 30<sup>th</sup> June 2014

## **RESULTS**

The Loss for the year was **Kshs.78,682,828.00**

## **THE ROLE OF THE BOARD**

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

## **BOARD MEETINGS**

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

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

## **COMPOSITION OF THE BOARD OF DIRECTORS**

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

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

## **BOARD COMMITTEES**

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

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

## **DIRECTORS**

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

Gen (Dr) J W Karangi	Chairman
Lt Gen J kasaon	Director
Maj Gen J Otieno	Director
Maj Gen N Mukala	Director
Amb. Dr Monica Juma (PS Ministry of Defence)	Director
Maj Gen P N Ikenye, KA (Rtd)	Director
Maj Gen P M Waweru, KA (Rtd)	Director
Maj Gen C Mwanzia KAF (Rtd)	Director
Dr Kamau Thuge (PS Ministry of Finance)	Director
Maj Gen L K Tumbo	Managing Director

### ***Directors who left during the year were:***

M/s Nancy Kirui (PS Ministry of Defence)	Director
Mr Joseph Kinyua (PS Ministry of Finance)	Director

**KENYA ORDNANCE FACTORIES CORPORATION TOP MANAGEMENT**

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

Maj Gen L K Tumbo	Managing Director
Col G Okumu	General Manager
Lt Col Peter K Kiplagat	Human Resources Manager
Maj D N Mutiso	Technical Manager
Maj J Kiprop	Stores Manager
Maj J R Chepkoech	Procurement Manager
Maj C W Masibo	Security & Safety Manager
M/s Magdalene Ochola	Commercial Services Manager
Maj (Rtd) D E Onyapidi	Ag, Farm Manager
Maj E O Were	Quality Assurance Manager
Mr Leo K Kerich	Production Manager
Mr. Daniel K Towett	Finance Manager

***Managers who left during the year were:***

Col (Rtd) E M Gichuiya	General Manager
Lt Col John M Thagana	Technical Manager
Maj T N Obuoro	Procurement Manager
Mr Anthony Kibet	Ag, Quality Assurance Manager

**BY ORDER OF THE BOARD**

*Chairman*

***General (Dr) J W Karangi, EGH, CBS, DCO 'ndc' (K) 'psc' (K)***

## **CORPORATE GOVERNANCE STATEMENT**

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

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

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

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

business. All employees of the Corporation are expected to avoid activities and financial interests that could undermine their responsibilities to the Corporation.

## **CORPORATE SOCIAL RESPONSIBILITY (CSR)**

We take our social and environmental responsibility seriously and support the communities and the environment within which we do our business. The Board and Management believe that Corporate Social Responsibility (CSR) programmes should be relevant, impactful, and sustainable. The Board takes overall responsibility for the continued development and implementation of appropriate social and environmental policies of the Corporation. During the year under review, the Corporation was involved in one CSR activity, Environmental Conservation. The Corporation relies on the environment extensively for its business, including timber for packaging our product. Since 2009, the Corporation has been involved in tree-planting within its vast land.

## **STATEMENT OF DIRECTORS RESPONSIBILITIES**

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

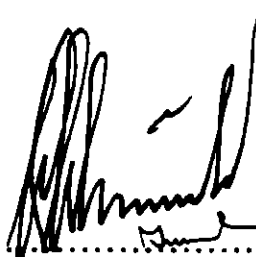
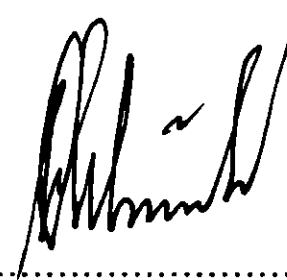
The Directors are responsible for the preparation and presentation of the State Corporations financial statements which give a true and fair view of the state of affairs of the Corporation for and as at the end of the financial year 2013/2014 ended on June 30, 2014. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Corporation; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Corporation; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The directors accept responsibility for the Corporations financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgment and estimates, in conformity with International Public Sector Accounting Standards (IPSAS) and in the manner required by the PFM Act and the State Corporation Act. The Directors are of the opinion that the Corporations financial statements give a true and fair view of the state of the Corporations transactions during the financial year ended June 30, 2014, and the Corporation financial position as at that date. The directors further confirm the completeness of the accounting records maintained for the Corporation which have been relied upon in the preparation of the Corporation's financial statements as well as adequacy of the systems of internal financial control

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

**Approval of the financial statements**

The Corporation financial statements were approved by the Board on  
.....2014 and signed on its behalf by:

Director..........Director..........

## **REPORT OF THE INDEPENDENT AUDITORS ON KENYA ORDNANCE FACTORIES CORPORATION**

We have audited the accompanying financial statements of Kenya Ordnance Factories Corporation for the year ended June 30, 2014 which comprise: (i) a statement of financial performance; (ii) a statement of financial position; (iii) a statement of changes in net assets; (iv) a statement of cash flows; (v) a statement of comparison of budget and actual amounts and (vi) summary of significant accounting policies and other explanatory information.

### **Management's responsibility of the financial statements**

The Corporation's Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standards, and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### **Auditors' responsibility**

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

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



**Opinion**

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at June 30, 2014, and its financial performance as well as cash flows for the year then ended in accordance with International Public Accounting Standards.

**Auditor General**

**Date.....**

# REPUBLIC OF KENYA

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NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON KENYA ORDNANCE FACTORIES CORPORATION FOR THE YEAR ENDED 30 JUNE 2014

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#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Ordnance Factories Corporation as set out on pages 13 to 40, which comprise the statement of financial position as at 30 June 2014, and the statement of comprehensive income, statement of changes in reserves, 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 14 of the Public Audit Act, 2003. 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.

#### **Management's Responsibility for the Financial Statements**

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

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

#### **Auditor-General's Responsibility**

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards of Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Basis for Adverse Opinion**

#### **1.0 Non-Current Assets**

##### **1.1 Land**

As reported in the previous years, the Corporation has title documents for land measuring 727.7 hectares on which the factory stands. However, the Corporation requested the Government to allocate it an additional 908 hectares to enable it attain the required safety distance for the factory, subsequent to which an allotment letter for the additional land was issued. The process of surveying the 908 hectares started in February 2011 but it stalled due to squatters who could not allow surveyors access to the land in the buffer zone. The buffer zone is necessary to ensure safety of the people in the neighbourhood and security of the factory in accordance with International Standards.

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

##### **1.2 Fixed Assets Register**

The Corporation did not during the year under review update the fixed assets register and ledgers. Further, the Corporation failed to provide for audit review the detailed schedules in support of building, and civil works, waterline and civil works, work in progress, plant and equipment, motor vehicles, furniture and fittings.

Consequently, the accuracy of the fixed assets balance of Kshs.3,094,166,785 as at 30 June 2014 could not be confirmed.

## **2.0 Unsupported Inventory Balance**

The financial statements show inventory of Kshs 1,070,068,335 as at 30 June 2014 indicated as having been valued at lower of cost and net realizable values. However, records availed for audit review reflected an amount of Kshs.992,762,545 resulting in an unexplained and unreconciled variance of Kshs 77,305,790.

Consequently, the accuracy of the inventory figure of Kshs 1,070,068,335 as at 30 June 2014 could not be confirmed.

## **3.0 Trade and other receivables**

As reported in previous years, trade and other receivables balance of Kshs 161,740,956 as at 30 June 2014 includes tax recoverable from Kenya Revenue Authority of Kshs.36,475,371 which has been outstanding for the last eight years. Further, another tax refund claim of Kshs 12,859,976 has not been recovered for the past 13 years and no provision was made by the corporation in 2013/2014 to cover the uncertainty of collectability of the refund.

Consequently, the accuracy of the trade and other receivables balance of Kshs.161,740,956 could not be confirmed.

## **4.0 Cash and Bank Balance**

The statement of financial position as at 30 June 2014 reflects cash and bank balance of Kshs 9,096,966 which includes cash at bank of Kshs.6,484,965 The cash at bank balance of Kshs.6,484,965 is arrived at after an adjustment of Kshs 39,823,799 However, details of the adjustment totaling Kshs.39,823,799 have not been provided for audit review.

Consequently, the validity and accuracy of the cash and bank balance of Kshs 9,096,966 as at 30 June 2014 could not be confirmed

## **Adverse Opinion**

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraph, the financial statements do not present fairly, the financial position of the Corporation as at 30 June 2014 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and does not comply with the Companies Act, Cap. 486 of the Laws of Kenya.

## **Other Matter**

### **Financial Performance**

During the year under review, the Corporation recorded a net loss of Kshs.78,682,828 as compared to a loss of Kshs.68,481,899 during the year 2012/2013 which brought the cumulative revenue reserves to a negative of Kshs 832,208,536 as at 30 June 2014. Sales also reduced to Kshs.476,790,350 during 2013/2014 as compared to Kshs 647,122,682 during the previous year.

If strategies are not put in place to reverse the trend, the corporation may experience financial challenges as and when debts fall due.



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

**Nairobi**

**4 August 2015**

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30/06/2014

	NOTE	YEAR ENDED 2013-2014 KSHS	YEAR ENDED 2012-2013 KSHS
SALES	3	476,790,350	647,122,682
COST OF SALES	4	(762,639,343)	(748,682,454)
GROSS		(285,848,993)	(101,559,772)
TRADING (LOSS)/PROFIT		(285,848,993)	(101,559,772)
FARM INCOME	5	58,637,444	10,960,930
OTHER INCOME	6	87,442,238	115,001,710
RECURRENT GRANT	7	270,135,914	85,404,378
FAIR VALUE GAIN/(LOSS) ON BIOLOGICAL ASSET	8	54,204,372	-
ADMINISTRATIVE EXPENSES	9	(271,688,763)	(186,191,509)
OTHER OPERATING EXPENSES (Audit Fee Provision)		(812,000)	(812,000)
OPERATING (LOSS)/PROFIT		(87,929,789)	(77,196,263)
FINANCE (COST)/INCOME	10	9,246,961	8,714,363
(LOSS)/PROFIT BEFORE TAX		<u>(78,682,828)</u>	<u>(68,481,899)</u>
PROFIT/ LOSS AFTER TAX		<u>(78,682,828)</u>	<u>(68,481,899)</u>

**STATEMENT OF FINANCIAL POSITION**

KENYA ORDNANCE  
FACTORIES CORPORATION 2013/2014


**AS AT 30/06/2014**

	NOTES	2013-2014 KSHS	2012-2013 KSHS
<b>NON-CURRENT ASSETS</b>			
FIXED ASSETS	11	3,094,166,785	3,155,179,464
		<u>3,094,166,785</u>	<u>3,155,179,464</u>
<b>CURRENT ASSETS</b>			
INVENTORY	12	1,070,068,335	1,033,032,280
BIOLOGICAL STOCKS	13	141,498,800	87,294,428
CASH AND BANK BALANCES	14	9,096,966	48,909,616
SHORT TERM INVESTMENT	15	341,000,000	328,000,000
TRADE AND OTHER RECEIVABLES	16	161,740,956	264,927,523
TAX RECOVERABLE	17	12,859,976	12,859,976
		<u>1,736,265,033</u>	<u>1,775,023,823</u>
<b>EQUITY AND LIABILITIES</b>		<u><b>4,830,431,817</b></u>	<u><b>4,930,203,286</b></u>
<b>EQUITY</b>			
GOVERNMENT INVESTMENT		5,122,530,513	5,122,530,513
REVALUATION SURPLUS		37,670,072	37,670,072
REVENUE RESERVES		(832,208,536)	(753,525,708)
		<u>4,327,992,049</u>	<u>4,406,674,877</u>
<b>CURRENT LIABILITIES</b>			
TRADE AND OTHER PAYABLES	18	502,439,768	523,528,409
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>4,830,431,817</b></u>	<u><b>4,930,203,286</b></u>

The financial statements were approved by the Board of Directors

on .....and signed on its behalf by

  
.....(Director)  
MAJ GEN WAWERU KA (Rtd)

  
.....(Managing Director)  
Maj Gen L K TUMBO CBS, 'ndc'(K), 'cgsc'(USA)

**STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED 30/06/2014**

	GOVERNMENT REVALUATION INVESTMENT KSHS	SURPLUS	REVENUE RESERVE KSHS	TOTAL KSHS
BALANCE AS AT 1st JULY 2013	4,987,530,513	37,670,072	(685,043,808)	4,340,156,777
Net (Loss)/Profit for the Year	-	-	(68,481,900)	(68,481,900)
Capitation Grants Received during the Year 2012 - 2013	135,000,000	-	-	135,000,000
Revaluation surplus Prior Year Adjustment of Revaluation Surplus	-	-	-	-
<b>BALANCE AS AT 30th JUNE 2013</b>	<b>5,122,530,513</b>	<b>37,670,072</b>	<b>(753,525,708)</b>	<b>4,406,674,877</b>
BALANCE AS AT 1st JULY 2013	5,122,530,513	37,670,072	(753,525,708)	4,406,674,877
Net (Loss)/Profit for the Year	-	-	(78,682,828)	(78,682,828)
Capital Grants Received during the Year 2013 - 2014	-	-	-	-
Biological Stocks	-	-	-	-
<b>BALANCE AS AT 30th JUNE 2014</b>	<b>5,122,530,513</b>	<b>37,670,072</b>	<b>(832,208,536)</b>	<b>4,327,992,049</b>

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED 30/06/2014**

	NOTE	YEAR ENDED 2013-2014 KSHS	YEAR ENDED 2012-2013 KSHS
<b>Operating Activities</b>			
(Loss)/Profit before tax		(78,682,828)	(68,481,900)
Adjustments for:			
Interest Income		(9,246,961)	(8,714,363)
Depreciation	19	102,734,843	101,554,632
Increase in fair value of Biological Assets		(54,204,372)	-
<b>Changes in working capital:</b>			
Increase/(Decrease) in Stocks		(37,036,055)	(40,253,007)
Increase/(Decrease) in Debtors and prepayments		103,186,567	30,574,890
Increase/(Decrease) in Creditors and accruals		(21,088,641)	(11,888,846)
Cash generated from operations		5,662,554	2,791,406
Tax paid		-	-
Net Cash used operating activities		5,662,554	2,791,406
<b>Investing activities</b>			
Purchase of fixed assets	20	(41,722,164)	(15,788,925)
Interest received		9,246,961	8,714,363
Net cash used for investing activities		(32,475,203)	(7,074,561)
<b>Financing activities</b>			
Government Investment		-	135,000,000
Increase/(Decrease) in cash and cash equivalents		(26,812,650)	130,716,844
<b>Movement in cash and cash equivalents</b>			
At 1st July 2013		376,909,616	246,192,770
Increase/(Decrease) during the year		(26,812,649)	130,716,846
Cash and Cash Equivalent as at 30th June 2014		350,096,966	376,909,616

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS					
REVENUE (Kshs)	Original budget 2013-2014	Final Budget 2013-2014	Actual on Comparable basis 2013-2014	Performance difference 2013-2014	Remarks
Ammo Sales	570,354,573	570,354,573	470,936,703	(99,417,870)	Sold as per customer requirements
Disposal	19,700,000	19,700,000	44,352,361	24,652,361	Disposed scrap material from production.
General Engineering Sales	2,500,000	2,500,000	5,853,647	3,353,647	Increased customer requirement due to wider market
Water Sales	3,000,000	3,000,000	3,665,474	665,474	Dependant on customer usage
Farm Sales	65,100,000	65,100,000	58,637,444	(6,462,556)	Low market prices and low output due to weather
Field Kitchen Fabrication	15,040,000	15,040,000	-	(15,040,000)	Orders made towards the End of FY
Interest Income	14,000,000	14,000,000	9,246,961	(4,753,039)	Sufficient funds not available for investments
Bakery Sales	15,009,000	15,009,000	19,915,173	4,906,173	Increased customer requirement due to wider market
Water Bottling Sales	34,000,000	34,000,000	14,146,818	(19,853,182)	Delay in Commissioning of the New Factory
KOFC Grant	135,000,000	135,000,000	149,362,248	14,362,248	Increased to cushion tax claim
<b>Total Income</b>	<b>873,703,573</b>	<b>873,703,573</b>	<b>776,116,828</b>	<b>(97,586,745)</b>	
Materials for Ammo Production	568,308,604	568,308,604	498,007,824	70,300,780	Reduced quantities to be procured due to stock levels and lower production.
Carbide Tools	8,024,993	8,024,993	8,242,924	(217,931)	
Auxilliary Parts for Tools Production	4,687,133	4,687,133	1,836,630	2,850,503	Difficulty in obtaining suppliers
Materials for Tools Production	10,561,100	10,561,100	4,820,593	5,740,507	Difficulty in obtaining suppliers
Consumables and Lab Chemicals	6,303,825	6,303,825	20,566,461	(14,262,636)	Increased production
Water Treatment Expenses	3,014,000	3,014,000	787,066	2,226,934	Delay in commissioning of the bottling plant
Machine Spares	12,000,000	12,000,000	21,785,443	(9,785,443)	Frequent machine breakdown and the Upgrade of Linking machine
Electricity Expenses	25,000,000	25,000,000	24,288,915	711,085	
Salaries and Allowances	135,000,000	135,000,000	131,102,338	3,897,662	
Motor Vehicle Operating Expenses	17,000,000	17,000,000	12,574,994	4,425,006	Reduced fuel prices
Directors Allowances	2,000,000	2,000,000	856,137	1,143,863	Only two meetings held

Travelling and Accomodation	5,965,044	5,965,044	4,518,896	1,446,148	Pre shipment inspection postponed to FY 14/15
Official Entertainment	600,000	600,000	399,501	200,499	One Board meeting held
Telephone & Internet Expenses	2,300,000	2,300,000	2,158,286	141,714	
Postal Expenses	383,089	383,089	338,388	44,701	Use of cheaper courier service provider.
Water and Conservancy	600,000	600,000	783,925	(183,925)	Payment of the introduced mandatory WARMA levies
Purchase of Drugs and Dressings	50,000	50,000	23,490	26,510	Based on requirement
Printing Expenses	200,000	200,000	93,726	106,274	Based on requirement
Purchase of Protective Gear	500,000	500,000	402,100	97,900	Procured as per the purchase plan
Purchase of Stationery	1,000,000	1,000,000	681,811	318,189	Cost saving on stationery(paper) use of e-mails
Purchase of Manuals & Technical Journals	394,000	394,000	342,630	51,370	Procured as per the purchase plan
Maintenance of Buildings	2,500,000	2,500,000	8,804,055	(6,304,055)	Maintenance and Construction of building to house the Milling Plant
Payment of Rent	1,296,000	1,296,000	1,446,950	(150,950)	Cancellation of lease for the General Manager residence
Purchase of General Stores	2,000,000	2,000,000	2,420,798	(420,798)	Additional requirements to support new satellite factories
Insurance Expenses	14,000,000	14,000,000	11,418,348	2,581,652	Negotiated for lower insurance premiums
Clearing, Transport & Freight Charges	14,000,000	14,000,000	26,350,018	(12,350,018)	Payment of Railway levies & 16% Vat on Imports
ISO 9001:2008 Certification Expenses	1,000,000	1,000,000	367,700	632,300	One surveillance audit conducted by KEBS
Bank Charges and Commission	4,000,000	4,000,000	3,972,045	27,955	
Maintenance of Roads	1,000,000	1,000,000	141,998	858,002	Minor repairs done Requires complete tarmac overlay
Computer Expenses	809,500	809,500	715,370	94,130	Procured as per the purchase plan
Legal and Consultancy Fees	1,000,000	1,000,000	5,000	995,000	
Audit Expenses	1,500,000	1,500,000	812,000	688,000	Conducted only one audit by KENAO
Farm Expenses	40,000,000	40,000,000	42,059,526	(2,059,526)	Increase in farm input prices
Mobile Field Kitchen Fabrication Expenses	11,269,863	11,269,863	9,573,067	1,696,796	Outsourced some of the services
Water Bottling Consumables	15,145,812	15,145,812	28,638,085	(13,492,273)	Increased demand of bottled water to be produced by Engineers Brigade

Bakery Consumables	17,500,000	17,500,000	15,429,668	2,070,332	Procured bakery raw materials as per prouduction and customer demand
Training Expenses	2,000,000	2,000,000	159,000	1,841,000	Not implemented due to non availability of funds
Sales and marketing	1,700,000	1,700,000	190,410	1,509,590	Not implemented due to non availability of funds
Purchase of Thicknesser	1,500,000	1,500,000	929,280	570,720	Procured a cheaper machine as per our specifications
Upgrading of Production Machines	2,000,000	2,000,000	-	2,000,000	
Purchase of Motor Vehicles	5,000,000	5,000,000	9,158,000	(4,158,000)	Acquisition of truck to deliver bread products due to increased demand
Purchase of Domestic and Household Equipmt	500,000	500,000	236,930	263,070	Procured as per the purchase plan
Purchase of Office Equipment	1,641,500	1,641,500	1,827,394	(185,894)	Equipment for the new diversification projects
Purchase of Security Equipment	1,000,000	1,000,000	1,082,974	(82,974)	
Purchase of Communication Equipment	949,960	949,960	-	949,960	
Laboratory Equipment	1,351,550	1,351,550	-	1,351,550	
Assorted Weapons	700,000	700,000	-	700,000	
Replacement of Water line Equipment	2,000,000	2,000,000	1,184,900	815,100	Procured pumps and pipes to replace the unserviceable
Milling Plant Equipment	4,500,000	4,500,000	4,206,922	293,078	
Field Kitchen Fabrication Equipment	4,300,000	4,300,000	4,306,861	(6,861)	
Water Bottling Plant	16,547,188	16,547,188	15,192,523	1,354,665	
Bakery Upgrade	13,747,819	13,747,819	5,421,980	8,325,839	Implementation in phases due to non availability of funds
<b>Total Expenditure</b>	<b>990,350,980</b>	<b>990,350,980</b>	<b>930,663,879</b>	<b>59,687,101</b>	
<b>Surplus (Deficit) for the Period</b>	<b>(116,647,407)</b>	<b>(116,647,407)</b>	<b>(154,547,051)</b>	<b>37,899,644</b>	

## ***Notes to the Financial Statements:***

### **1. Statement of compliance and basis of preparation – IPSAS 1**

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

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

### **2. Summary of Significant Accounting Policies**

#### **a. Revenue recognition**

##### **i) Revenue from non-exchange transactions – IPSAS 23**

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

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

##### **ii) Revenue from exchange transactions – IPSAS 9**

**Rendering of services:** The Corporation recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours.

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

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

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

**b) Budget information – IPSAS 24**

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

**c) Taxes – IAS 12**

***Current income tax:*** Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Corporation operates and generates taxable income.

Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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

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

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

entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

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

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

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of sales tax included

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

#### **d) Investment property – IPSAS 16**

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

Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment properties are measured using the cost model and are depreciated over a 30-year period.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service

potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition. Transfers are made to or from investment property only when there is a change in use.

**e) Property, plant and equipment – IPSAS 17**

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

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

**f) Intangible assets – IPSAS 31**

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

**g) Research and development costs**

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

- The technical feasibility of completing the asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits or service potential
- The availability of resources to complete the asset

➤ The ability to measure reliably the expenditure during development

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

**h) Biological Assets**

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

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

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

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

For Financial reporting purposes, the Corporation classifies its biological assets as follows:

**Consumable Biological Assets:** Consumables biological assets are those that are to be harvested as agricultural produce or sold as biological assets.

**Bearer Biological Assets:** Other Biological assets are classified as bearer biological assets. Gains or losses arising on initial recognition of biological assets and agricultural produce and from changes in fair value less point of sale costs are recognized in the income statement for the year.

**h) Financial instruments – IPSAS 29**

***Financial assets***

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

***Loans and receivables:*** Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method,

less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

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

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

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

**i) Financial liabilities**

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

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

IPSAS 29.65

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

**j) Inventories – IPSAS 12**

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

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

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost. Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution. Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Corporation.

**k) Provisions – IPSAS 19**

Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Corporation expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

**Contingent liabilities:** The Corporation does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

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

**l) Nature and purpose of reserves**

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

**m) Changes in accounting policies and estimates – IPSAS 3**

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

**n) Employee benefits – IPSAS 25**

**Retirement benefit plans:** The Corporation provides retirement benefits for its employees. Defined contribution plans are post employment benefit plans under which an Corporation pays fixed contributions into a separate Corporation (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

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

**o) Foreign currency transactions – IPSAS 4**

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

**p) Borrowing costs – IPSAS 5**

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

**q) Related parties – IPSAS 20**

The Corporation regards a related party as a person or an Corporation with the ability to exert control individually or jointly, or to exercise significant influence over the Corporation, or vice

versa. Members of key management are regarded as related parties and comprise the managers and senior managers.

**r) Service concession arrangements – IPSAS 32**

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

**s) Cash and cash equivalents**

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

**t) Comparative figures**

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

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

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

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

arising beyond the control of the Corporation. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

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

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

**Provisions:** Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 36.

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

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

**v) Subsequent events – IPSAS 14**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2014.

## *Notes to the Financial Statements Continued:*

### 3. Sales

	<b>2014</b>	<b>2013</b>
	<b>Kshs</b>	<b>Kshs</b>
Ammunition Sales	470,936,703	601,191,760
Fabrication and Auxiliary repairs	<u>5,853,647</u>	<u>45,930,922</u>
	<b>476,790,350</b>	<b>647,122,682</b>

### 4. Cost of Sales

	<b>2014</b>	<b>2013</b>
	<b>Kshs</b>	<b>Kshs</b>
Opening Stocks of finished goods	168,910,073	184,850,329
Production cost of finished goods	797,174,447	732,742,198
Closing stock of finished goods	<u>(203,455,177)</u>	<u>(168,910,073)</u>
<b>Cost of Sales</b>	<b>762,639,343</b>	<b>748,682,454</b>

### 5. Farm Income

	<b>2014</b>	<b>2013</b>
	<b>Kshs</b>	<b>Kshs</b>
Shelled Maize	52,286,533	10,960,930
Boma Rhodes	5,140,361	-
Maize Chenga	1,177,350	-
Maize Flour	18,000	-
Maize Bran	<u>15,200</u>	<u>-</u>
	<b>58,637,444</b>	<b>10,960,930</b>

### 6. Other Income

	<b>2014</b>	<b>2013</b>
	<b>Kshs</b>	<b>Kshs</b>
Piped Water	3,665,474	4,825,485
Bottled Water	17,480,919	-
Scrap Metal	44,352,361	110,176,225
Bakery Products	19,915,173	-
Insurance Refunds	<u>2,028,311</u>	<u>-</u>
	<b>87,442,238</b>	<b>115,001,710</b>

### 7. Recurrent Grant

	<b>2014</b>	<b>2013</b>
	<b>Kshs</b>	<b>Kshs</b>
Operational Grant	149,362,248	135,000,000
Other Grant	<u>120,773,666</u>	<u>85,404,378</u>
<b>Total government grants and subsidies</b>	<b>270,135,914</b>	<b>220,404,378</b>

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

	2014 Kshs	2013 Kshs
Fair value at the beginning of the year	87,294,428	87,294,428
Decrease in Fair value due to harvesting	(42,059,526)	-
Additional at Cost	42,059,526	-
Fair Value loss arising from physical changes	54,204,372	-
<b>Fair Value at the end of the year</b>	<b>141,498,800</b>	<b>-</b>

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

- a. The market conditions remain constant
- b. The prevailing climatic conditions will not change
- c. The price of farm inputs required to sustain the estimated yields will not change in the entire period considered to be the life cycle of the crops.

**9. Administrative Expenses**

	2014 Kshs	2013 Kshs
Motor vehicle running expenses	12,574,994	12,713,033
Travelling and accommodation	4,518,896	4,426,892
Administration salaries and allowances	75,562,801	60,726,642
Telephone and postage	2,496,674	3,166,262
Computer expenses	715,370	1,213,610
Official Entertainment	399,501	1,150,608
Directors Fees	856,137	1,089,052
Legal and Consultancy	5,000	13,000
Uniforms	402,100	242,716
Printing and Stationery	775,537	808,185
Rents	1,446,950	2,122,970
General stores	3,605,698	2,335,224
Training	150,000	178,002
Research & Development, Welfare, Gas & Solid Fuel	9,000	-
Bank charges	3,972,045	3,928,672
Medical expenses	23,490	343,466
Electricity	5,444,285	4,181,501
Depreciation:		
Motor vehicles	2,219,486	931,550
Buildings and civil works	1,727,313	1,727,313
Furniture and fittings	183,801	162,714
Waterline and civil works	951,698	951,698
Computers	5,762,438	7,025,146
Advertising	190,410	351,152
Newspapers and periodicals	342,630	392,413
Domestic and household expenses/Office Equipments	236,930	1,625,148
Insurance	2,689,332	3,010,809

**KENYA ORDNANCE  
 FACTORIES CORPORATION 2013/2014**

Building and roads maintenance	141,998	2,324,641
Clearing and transportation expense	26,350,018	12,071,701
Accountancy and audit fees	812,000	700,000
ISO Certification	367,700	681,500
Water and Consenvery	783,925	319,214
Security Expenses	1,082,974	139,959
Communication Expenses	-	530,880
Field Kitchen Fabrication	9,573,067	15,226,588
Farm Expenses	42,059,526	40,231,615
Bakery Consumables	17,853,372	-
Water Bottling Consumables	28,638,085	-
Kenya Revenue Tax Arrears and Penalties	17,575,582	-
<b>Total</b>	<b>272,500,763</b>	<b>187,003,509</b>

## Notes to the Financial Statements Continued:

### 11. Property Plant and Equipment

#### AS AT 30/06/2014

COST	BUILDING AND	WATERLINE AND	WORK IN	PLANT, EQUIPMENT & MOTOR VEHICLE	FURNITURE AND COMPUTERS			TOTAL
	CIVIL WORKS	CIVIL WORKS	PROGRESS	MACHINERY	FITTINGS	KSHS	KSHS	KSHS
	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS
1st JULY 2013	863,656,515	475,849,061	20,196,639	2,859,954,546	35,231,725	16,552,708	23,417,153	4,294,858,347
CAPITALIZED	-	-	-	-	-	-	-	-
ADDITIONS	-	-	27,156,774	2,481,980	9,158,000	1,827,394	1,098,016	41,722,164
30th JUNE 2014	863,656,515	475,849,061	47,353,413	2,862,436,526	44,389,725	18,380,102	24,515,169	4,336,580,511
DEPRECIATION								
ACCUMULATED AS AT								
1st JULY 2013	123,104,237	68,767,035	-	895,249,190	23,681,362	10,892,939	17,984,120	1,139,678,883
CHARGE FOR THE YEAR	8,636,565	4,758,491	-	71,560,913	11,097,431	919,005	5,762,438	102,734,843
ACCUMULATED AS AT								
30th JUNE 2014	131,740,802	73,525,526	-	966,810,103	34,778,793	11,811,944	23,746,558	1,242,413,726
NET BOOK VALUE								
30th JUNE 2014	731,915,713	402,323,535	47,353,413	1,895,626,423	9,610,932	6,568,158	768,611	3,094,166,785
NET BOOK VALUE								
30TH JUNE 2013	740,552,278	407,082,026	20,196,639	1,964,705,356	11,550,363	5,659,769	5,433,033	3,155,179,464

All assets are in the name of Ministry of State for Defence. Management are in the process of transferring these to the Corporation. The Land is yet to be valued, the Corporation is in the process of consolidating all its land into one block to facilitate the valuation process.

**KENYA ORDNANCE  
FACTORIES CORPORATION 2013/2014**

**10. Finance Income - External investments**

	<b>2014</b>	<b>2013</b>
	<b>Kshs</b>	<b>Kshs</b>
Fixed Deposits	9,246,961	8,714,363
<b>Total finance income - external investments</b>	<b>9,246,961</b>	<b>8,714,363</b>

**12. Inventories**

	<b>2014</b>	<b>2013</b>
	<b>Kshs</b>	<b>Kshs</b>
Raw materials, Chemicals and Tools/Dies	483,613,426	611,836,933
Oils and Lubricants	1,552,162	2,118,440
Water Bottling Raw Materials	3,665,474	-
Field Kitchen Materials	22,092,105	33,109,842
Work in Progress	179,600,371	134,847,167
Finished goods	203,445,177	168,910,073
Shelled Maize Stock	56,877,000	50,744,400
Production Scrap Metal	119,222,620	31,465,425
<b>Total inventories at the lower of cost and Realizable value</b>	<b>1,070,068,335</b>	<b>1,033,032,280</b>

**13. Biological Asset**

	<b>2014</b>	<b>2013</b>
	<b>Kshs</b>	<b>Kshs</b>
Maize	42,059,526	40,231,615
Assorted Trees	99,439,274	47,062,813
	<b>141,498,800</b>	<b>87,294,728</b>

**14. Cash and Cash Equivalents**

	<b>2014</b>	<b>2013</b>
	<b>Kshs</b>	<b>Kshs</b>
Bank	6,484,965	46,136,788
Cash on Hand	2,612,001	2,772,828
<b>Total cash and cash equivalents</b>	<b>9,096,966</b>	<b>48,909,616</b>

**15. Cash and Cash Equivalents**

	<b>2014</b>	<b>2013</b>
	<b>Kshs</b>	<b>Kshs</b>
Short Term Deposits	<u>341,000,000</u>	<u>328,000,000</u>
	<b>341,000,000</b>	<b>328,000,000</b>

**16. Trade and other receivables**

	<b>2014</b>	<b>2013</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>Current Receivables</b>		
Ammunition and Service Debtors	39,421,002	75,341,427
Other Exchange Debtors	85,844,583	150,079,813
Claimable Value Added Tax	36,475,371	39,506,283
	<b>161,740,956</b>	<b>264,927,523</b>

17. Tax Recoverable		2014	2013
		Kshs	Kshs
Tax Recoverable from KRA		12,859,976	12,859,976
18. Trade and Other Payables from exchange transactions		2014	2013
		Kshs	Kshs
Trade payables		320,616,250	374,497,882
Payments received in advance		140,000,000	140,000,000
Other payables		<u>41,823,518</u>	<u>9,030,527</u>
<b>Total trade and other payables</b>		<b>502,439,768</b>	<b>523,528,409</b>
19. Depreciation and Amortization		2014	2013
		Kshs	Kshs
Building and Civil Works		8,636,565	8,636,565
Waterline and Civil Works		4,758,491	4,758,491
Plant, Equipment and Machinery		71,560,913	71,498,864
Motor Vehicles		11,097,431	8,807,931
Furniture and Fittings		919,005	827,635
Computers		<u>5,762,438</u>	<u>7,025,146</u>
<b>Total depreciation and amortization</b>		<b>102,734,843</b>	<b>101,554,632</b>
20. Purchase of Fixed Assets		2014	2013
		Kshs	Kshs
Work in progress (Thika plant/Bakery)		27,156,774	15,788,925
Plant Equipment & Machinery		2,481,980	-
Motor Vehicles		9,158,000	-
Furniture and Fittings		1,827,394	-
Computers		<u>1,098,016</u>	-
		<b>41,772,164</b>	<b>15,788,925</b>
21. Bulk Purchase of electricity		2014	2013
		Kshs	Kshs
Electricity		<u>27,221,423</u>	<u>20,907,506</u>
<b>Total bulk purchase</b>		<b>27,221,423</b>	<b>20,907,506</b>

**22. Related party Transactions**

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

During the year the following transactions were entered into with related parties:

Sales to related parties:

	2014 Kshs	2013 Kshs
<b>Ammo Sales</b>	476,790,350	647,122,662

	2014 Kshs	2013 Kshs
<b>Financial Grant</b>	135,000,000	135,000,000

**Employee Cost**

	2014 Kshs	2013 Kshs
KOFC personal Salaries and Allowances	131,102,338	117,017,764
Seconded Personnel Salaries and Allowances	<u>120,773,666</u>	<u>85,404,378</u>
<b>Total Employee cost</b>	<b>251,873,004</b>	<b>202,422,142</b>

**Directors Allowances**

	2014 Kshs	2013 Kshs
Directors Allowances	<u>856,137</u>	<u>1,048,683</u>
<b>Total directors allowances</b>	<b>856,137</b>	<b>1,048,683</b>

**23. Depreciation and Amortization**

	2014 Kshs	2013 Kshs
Building and Civil Works	8,636,565	8,636,565
Waterline and Civil Works	4,758,491	4,758,491
Plant, Equipment and Machinery	71,560,913	71,498,864
Motor Vehicles	11,097,431	8,807,931
Furniture and Fittings	919,005	827,635
Computers	<u>5,762,438</u>	<u>7,025,146</u>
<b>Total depreciation and amortization</b>	<b>102,734,843</b>	<b>101,554,632</b>

**24. Contracted Services**

	2014 Kshs	2013 Kshs
Legal and consultancy	5,000	13,000
Certifications	367,700	681,500
Insurance Brokerage	<u>11,418,348</u>	<u>15,054,046</u>
<b>Total contracted services</b>	<b>11,791,048</b>	<b>15,748,460</b>

**25. Cash generated from operations**

	2014 Kshs	2013 Kshs
Surplus/Deficit for the year before tax	(78,682,828)	(68,481,900)
Adjusted for:		
Depreciation	102,734,843	101,554,632
Finance Income	(9,246,961)	(8,714,363)
Increase in fair value of biological assets	(54,204,372)	-
<b>Working Capital adjustment:</b>		
Increase in Inventory	(37,036,055)	(40,253,007)
Increase in receivables	103,186,567	30,574,890
Increase in payables	<u>(21,088,641)</u>	<u>(11,888,846)</u>
<b>Net cash flow from operating activities</b>	<b>5,662,554</b>	<b>2,791,406</b>

**26. Financial Instruments and Risk Management**

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

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

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

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

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

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

**30. Currency:** These financial statements are presented in Kenya Shillings.

**31. Event after the reporting period**

There are no material non adjusting events after the reporting date.

## Notes to the Financial Statements:

### 38. DETAILED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30/06/2014

	NOTE	YEAR ENDED 2013-2014 KSHS.	YEAR ENDED 2012-2013 KSHS.
<b>SALES</b>			
LESS:		476,790,350	647,122,682
Opening stock of finished goods		168,910,073	184,850,329
Production cost of finished goods		797,174,447	732,742,198
Closing stock of finished goods		(203,445,177)	(168,910,073)
<b>COST OF GOODS SOLD</b>		<b>762,639,343</b>	<b>748,682,454</b>
<b>TRADING (LOSS)/PROFIT</b>		<b>(285,848,993)</b>	<b>(101,559,773)</b>
Bank interest income		9,246,961	8,714,363
Water Sales		21,146,393	-
Scrap Sales		44,352,361	115,001,710
Farm income		58,637,444	10,960,930
Bakery Sales		19,915,173	-
Insurance Refund		2,028,311	-
Recurrent Grants		270,135,914	85,404,378
Fair Value Gain/(Loss) on Biological Assets		54,204,372	-
		<b>193,817,935</b>	<b>118,521,609</b>
<b>EXPENDITURE</b>			
Amortisation of powerline installation costs		-	-
Motor vehicle running expenses		-	-
Travelling and accomodation		12,574,994	12,713,033
Administration salaries and allowances		4,518,896	4,426,892
Telephone and postage		75,562,801	60,726,642
Computer expenses		2,496,674	3,166,262
Official Entertainment		715,370	1,213,610
Directors Fees		399,501	1,150,608
Legal and Consultancy		856,137	1,089,052
Uniforms		5,000	13,000
Printing and Stationery		402,100	242,716
Rents		775,537	808,185
General stores		1,446,950	2,122,970
Training		3,605,698	2,335,224
Research & Development, Wefare, Gas and Solid Fuel		150,000	178,002
Bank charges		9,000	-
Medical expenses		3,972,045	3,928,672
Electricity		23,490	343,466
Depreciation:		5,444,285	4,181,501
Motor vehicles		2,219,486	931,550

**KENYA ORDNANCE  
 FACTORIES CORPORATION 2013/2014**

Buildings and civil works	1 727 313	1 727,313
Furniture and fittings	183,801	162,714
Waterline and civil works	951,698	951,898
Computers	5,762,438	7,025,146
Advertising	190 410	351,152
Newspapers and periodicals	342,630	392,413
Domestic and household expenses/Office Equipments	236,930	1 625 148
Insurance	2,689,332	3,010,809
Building and roads maintenance	141,998	2,324,641
Cleaning and transportation expense	26,350,018	12,071,701
Accountancy and audit fees	812,000	700,000
Iso Certification	367,700	681,500
Water and Conservancy	783,925	319,214
Security Expenses	1,082,974	139,959
Communication Expenses	-	530,880
Field Kitchen Fabrication	9,573,067	15,226,588
Farm Expenses	42,059,526	40,231 615
Bakery Consumables	17 853,372	-
Water Bottling Consumables	28,638,085	-
Kenya Revenue Tax Arrears and Penalties	17,575,582	-
<b>TOTAL EXPENDITURE</b>	<u>272,500,763</u>	<u>187,003,509</u>
 <b>OPERATING (LOSS)/PROFIT</b>	 <u><u>(78,682,828)</u></u>	 <u><u>(68,481,900)</u></u>

**Notes to the Financial Statements Continued:**  
**40. MANUFACTURING ACCOUNT**

**FOR YEAR ENDED 30TH JUNE 2014**

	YEAR ENDED 2013-2014 KSHS	YEAR ENDED 2012-2013 KSHS
<b>DIRECT COSTS:</b>		
Opening stock of raw materials	438,965,347	415,614,800
Purchases of raw materials	512,907,970	513,632,088
	<u>951,873,317</u>	<u>929,246,888</u>
Less		
Closing stock of raw materials	(447,065,215)	(438,965,347)
Cost of raw materials used	<u>504,808,102</u>	<u>493,281,541</u>
Add		
Direct labour	176,313,203	141,695,499
Prime cost	<u>681,121,305</u>	<u>634,977,041</u>
<b>FACTORY OVERHEADS:</b>		
Insurance	10,757,327	12,043,237
Electricity	21,777,138	16,726,005
Water & effluent treatment chemicals	787,066	1,459,250
consumables	20,566,461	2,678,146
Machine spares & maintenance	21,785,443	11,802,548
Depreciation		
Plant and machinery	71,560,913	71,498,864
Motor vehicles	8,877,945	3,726,200
Buildings and civil works	6,909,252	6,909,252
Furniture and fittings	735,204	650,854
Waterline and civil works	3,806,793	3,806,793
	<u>167,563,541</u>	<u>131,301,149</u>
<b>TOTAL</b>	<b>848,684,846</b>	<b>766,278,190</b>
Opening work-in-progress	134,847,167	76,130,300
Opening scrap	31,465,425	56,648,300
Less		
Closing work-in-progress	(164,600,371)	(134,847,167)
Closing scrap	(53,222,620)	(31,465,425)
<b>PRODUCTION COST OF FINISHED GOODS</b>	<b><u>797,174,447</u></b>	<b><u>732,742,198</u></b>

**PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**

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

Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
1	Tax recoverable from Kenya Revenue Authority of Kshs 36,475,371 has been outstanding for seven years and no provision was made by the Corporation in 2012/2013 period to cover the uncertainty and collectability of the refund.	This claim is being addressed by the Board of Directors in consultation with the Ministry of Finance. During the 43rd Board of Directors meeting held on 9th November 2012, Alternate Director (Finance) requested KOFC to launch a fresh claim since the documentation launched earlier could not be traced. We are yet to receive any response on our claim and this matter will be an agenda item during the next Board of Directors meeting scheduled for this month with a view of deliberating on the best alternative means of resolving this long outstanding matter.	Daniel Kibet Towett - Finance Manager	Not resolved	30 th June 2015
2	All Corporation parcels of land including registration numbers Kakamega/Sango/1970, LR No. 27206/01 and LR No. 27206/2 measuring 0.48 hectares, 2545 hectares and 727.1 hectares respectively have not been valued and were not included in the financial statements.	The value of the Corporation's pieces of land with title number Kakamega/Sango/1970 measuring approximately 0.48 hectares, L.R. Number 27206/01 measuring 2,445 hectares and L.R. Number 27206/02 measuring 727.7 hectares have not been included in the asset register and financial statements for the fiscal year 2012/2013. To facilitate the valuation of the Corporation's land, the Board of Directors through the Ministry of State for Defence Ministerial Tender Committee (MTC) commissioned Highlands Surveyors Limited to carry out the survey works as from 2nd February, 2011. However, the survey work stalled due to the squatters who have invaded the land preventing the surveyor from accessing the land. Considering this	Major Masibo - Security and Safety Manager	Not resolved	30th June 2015

KENYA ORDINANCE  
 FACTORIES CORPORATION 2013/2014

<p>3</p> <p>The Corporation failed to provide detailed schedules of building, civil works, waterline and civil</p>	<p>challenge, the Board of Directors requested for the intervention of the Ministry of Lands to issue authority to the District Lands Surveyor to commence the survey works and was granted. The District Surveyor could not begin the survey works as the squatters came up with a new condition on 7th November, 2011 during a meeting convened by the District Commissioner and attended by the District Land Surveyor. The condition was that their farms must be surveyed first and they be issued with title deeds and DoD can only negotiate with them individually for the compensation for land that may fall within the buffer zone. This further stalled the survey work and the subsequent valuation to date. The Corporation through the Ministry of Defence pursued the Ministry of Lands to address the issues jamming the survey. On 11th June, 2014, the Ministry of Defence assured us that they have already paid government surveyors and they are scheduled to commence the survey and demarcation of all the KOFC land and subsequently issuance of titles before the end of June 2014. The valuation is scheduled to commence immediately after this exercise. The parcels of land with titles have not been valued due to the fact that some squatters are sitting on some portions of the land. This problem will be addressed by the surveyors already engaged. It is our anticipation that valuation of all KOFC land will be concluded within the next financial year and value disclosed in the subsequent financial statements.</p> <p>We concur that the Corporation fixed asset register was incomplete by having motor vehicles without values. Other than two 51 seater UD buses, two Nissan micro</p>	<p>Mr Reuben Sawe-                  Personnel and                  Administration</p>	<p>Not resolved</p>	<p>30th June                  2015</p>
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KENYA ORDNANCE  
 FACTORIES CORPORATION 2013/2014

	<p>works, work in progress, plant and equipment, motor vehicles, furniture, fittings and equipment.</p>	<p>buses, Pick up and two tractors bought by the Corporation, the other motor vehicles in question belong to the Kenya Defence Forces. The vehicles are only attached to the corporation, therefore we cannot include them in the asset register. In addition, the other assets comprising of buildings and civil works, waterline, plant and equipment, some of the furniture, computers and fittings are yet to be formally transferred to the Corporation by the Ministry of Defence. As observed that the Corporation appended a fixed assets schedule as note number 9 (a) with a balance value of Kshs 3,155,179,464 as at the close of the year was sourced from the initial cost at the time of taking over from the contractor in the year 1997. These block figures were categorized under the various asset heads and have been depreciated to date. Although this is the current position, we intend to engage a valuer as explained in para 3 above to value all the Corporation assets including land and thereafter we shall be able to update the register instead of the continued use of the initial contractors block figure.</p>	<p>Manager</p>		
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Managing Director

