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REPORT

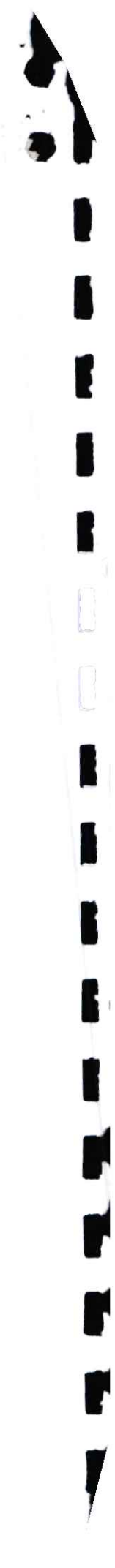
OF

THE AUDITOR-GENERAL

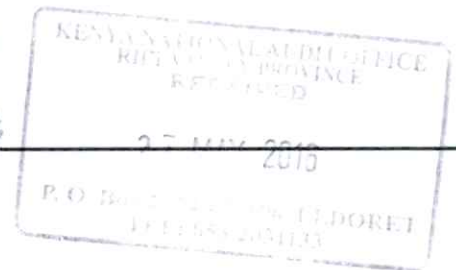
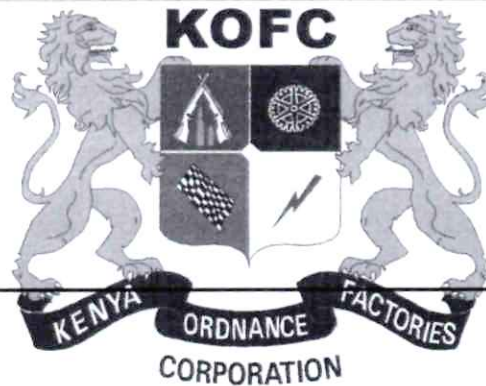
ON

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

**FOR THE YEAR ENDED
30 JUNE 2015**



CONFIDENTIAL



**KENYA ORDNANCE
FACTORIES
CORPORATION**

**AUDITED ANNUAL
REPORT
AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2015**

CONFIDENTIAL

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CORPORATE INFORMATION

INCORPORATION

The Kenya Ordnance Factories Corporation (KOFC) was established as a State Corporation in July 1997 it was exempted from the provision of the State Corporation Act (CAP 446) under the legal Notice No. 522 of the 28th October 1997. However, no 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 30th 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

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

LAWYERS/ADVOCATES

MINISTRY OF DEFENCE REPRESENTATIVE (DOD LEGAL)

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 30th June 2015

RESULTS

The Profit for the year was **Kshs.151,258,078.00**

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.

BOARD OF DIRECTORS

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

Gen S J Mwathethe	Chairman as from 29/04/2015
Gen (Dr) (Rtd) J W Karangi	Chairman up to 29/04/2015
Lt Gen J Kasaon	Director up to 29/04/2015
Lt Gen L M Ngondi	Director as from 29/04/2015
Maj Gen S N Thuita	Director as from 01/09/2015
Maj Gen (Rtd) J Otieno	Director up to 01/09/2015
Maj Gen N Mukala	Director
Mr Mutea Iringo	Director
Mr Kiritu Wamae (PS Ministry of)	Alternate Director Ministry of Defence
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
Mr O Ontweka	Alternate Director Ministry of Finance
Maj Gen L K Tumbo	Managing Director up to 21/04/2015
Maj Gen M M Munywoki	Managing Director as from 22/04/2015

Directors who left during the year were:

Gen (Dr) J W Karangi	Chairman left on 29/04/2015
Lt Gen J Kasaon	Director left on 29/04/2015
Maj Gen (Rtd) J Otieno	Director left on 01/09/2015
Maj Gen (Rtd) L K Tumbo	Managing Director left on 21/04/2015

MANAGEMENT TEAM

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

Maj Gen L K Tumbo	Managing Director up to 21/04/2015
Maj Gen M M Munywoki	Managing Director as from 22/04/2015
Col G Okumu	General Manager
Lt Col Gata	Human Resources Manager as from 31/03/15
Lt Col Peter K Kiplagat	Human Resources Manager up to 31/03/2015
Maj D N Mutiso	Technical Manager
Maj J Kiprop	Stores Manager
Maj J R Chepkoech	Procurement Manager up to 14/12/2014
Maj C W Masibo	Security & Safety Manager up to 01/04/2015
Maj S N Osembo	Security & Safety Manager as from 01/04/2015
M/s Magdalene Ochola	Commercial Services 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:

Maj Gen L K Tumbo	Managing Director left on 21/04/2015
Lt Col Peter K Kiplagat	Human Resources Manager left on 31/03/2015
Maj C W Masibo	Security & Safety Manager left on 01/04/2015
Maj J R Chepkoech	Procurement Manager left on 14/12/2014

BY ORDER OF THE BOARD

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

CORPORATE GOVERNANCE STATEMENT

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

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

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

The Board has three standing committees, which meet regularly under the terms of reference set by the Board. The Corporation has defined procedures and financial controls to ensure the reporting of complete and accurate accounting information. These cover systems for obtaining authority for major transactions and for ensuring compliance with laws and regulations that have significant financial implications. Procedures are also in place to ensure that assets are subject to proper physical controls and that the organization remains structured to ensure appropriate segregation of duties. The Corporation is committed to the highest standards of integrity, 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 2014/2015 ended on June 30, 2015. 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, 2015, 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 on2015 and signed on its behalf by:

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



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA ORDNANCE FACTORIES CORPORATION FOR THE YEAR ENDED 30 JUNE 2015

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Ordnance Factories Corporation set out on pages 10 to 37, which comprise the statement of financial position as at 30 June 2015, and the statement of financial performance, statement of changes in net assets and statement of cash flows 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 (Accrual Basis) 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 Supreme Auditing Institutions (ISSAIs). 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 qualified audit opinion.

Basis for Qualified Opinion

1.0 Non-Current Assets

1.1 Land

As reported in 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 additional 908 hectares to enable it attain the required safety distance for factory, subsequent to which an allotment letter for additional land was issued. The process of surveying the additional 908 Hectares allocated to the corporation to give buffer zone necessary to ensure safety of the people in the neighbourhood and security of the factory in accordance with International Standards started in February 2011, but it stalled due to settlers who could not allow surveyor's access to the land in the buffer zone.

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

1.2 Fixed Assets Register

As reported in the previous years, the Corporation did not update the fixed assets register and ledgers. In addition, the Corporation did not provide for audit review the detailed schedules of buildings and civil works, water line and civil works, work in progress, plant, equipment and machinery, motor vehicles, furniture and fittings and computers.

Consequently, the accuracy of the property, plant and equipment balance of Kshs.3,108,219,275 as at 30 June 2015 could not be confirmed.

2.0 Trade and Other Receivables

2.1 VAT Recoverable

The trade and other receivables balance of Kshs.425,074,097 include claimable VAT balance of Kshs.101,246,592 inclusive of VAT claimable of Kshs.64,771,221 for the year under review. The amount has accumulated over the last nine years and no proper records were provided for audit verification.

Information available indicates that the corporation made a VAT claim of Kshs.81,000,000 to KRA for the period September 2013 to July 2014 but filed it late with KRA in November 2014. According to the records reviewed, the input tax on imported raw materials was paid by the Department of Defence on behalf of the Corporation using DOD PIN No P051098785V, while the claim has been made by the Corporation using its PIN No P051121081J and therefore there is no evidence that the two are jointly registered for VAT refund.

The statement of financial position further reflects another tax recoverable balance of Kshs.12,859,976 from KRA which has been outstanding for the last 14 years. The collectability of this amount is therefore in doubt and the Corporation failed to make a provision during the year to cover the uncertainty of the collectability of the claim.

Consequently, the recoverability of the VAT balance of Kshs.101,246,592 included in trade and receivables balance of Kshs.425,246,592 and another claim of Kshs.12,859,976 as at 30 June 2015 could not be confirmed.

2.2 Prepayment

The debtors and other receivables balance of Kshs.425,074,097 as at 30 June 2015 also include a prepayment of Kshs.2,416,450 included in the other exchange debtors balance of Kshs.119,080,509 made to an overseas supplies firm that have remained outstanding since 2010/2011 and no reason has been provided for non-recovery of the amount.

Consequently, the accuracy and recoverability of the prepayment balance of Kshs.2,416,450 could not be confirmed as at 30 June 2015.

3.0 Cash and Bank Balance

As reported in the previous year, the cash and bank balance of Kshs.9,096,996 as at 30 June 2014 included bank balance of Kshs.6,484,965 which was arrived at after adjustment of Kshs.39,823,799. However, the details of the adjustment of Kshs 39,823,799 were not provided for audit review. Although the management has explained that the adjustment of Kshs 39,823,799 was in respect of un-presented cheques, the details of the cheques have not been availed for audit verification. Consequently, the accuracy of the adjustment and the other accounts that were subsequently affected could not be confirmed.

4.0 Trade and Other Payables

The trade and other payables balance of Kshs.529,140,745 as at 30 June 2015 include an amount of Kshs.140,000,000 in respect of cash advance from the Ministry of Defence. The amount has remained outstanding since 2011/2012 and the management has not indicated when the liability shall be cleared. The trade and other payables balance further, includes a prepayment of Kshs.277,354,627 by the Ministry of Defence in respect of deposit for products which have also remained un-settled or un-serviced since 2011/2012 and no reason has been provided for failure to service the order for such a long period of time.

Consequently, the accuracy and validity of the creditors and other payables total balance of Kshs.417,354,627 as at 30 June 2015 could not be confirmed.

5.0 Government Investment

The statement of financial position as at 30 June 2015 reflects government investment of Kshs.5,122,530,513. However, an explanatory note has not been provided to the financial statement to show what the amount relates to as required by IPSAS 1 on presentation of financial statements. Consequently, the accuracy and validity of the government investment balance of Kshs.5,122,530,513 could not be confirmed as at 30 June 2015.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects the financial position of Kenya Ordnance Factories Corporation as at 30 June 2015, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the State Corporations Act, Cap 446 of the Laws of Kenya.



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

Nairobi

5 July 2016

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30/06/2015

	NOTE	YEAR ENDED 2014-2015 KSHS	YEAR ENDED 2013-2014 KSHS
SALES	3	751,534,681	476,790,350
COST OF SALES	4	(887,643,028)	(762,639,343)
GROSS		(136,108,347)	(285,848,993)
TRADING (LOSS)/PROFIT		(136,108,347)	(285,848,993)
FARM INCOME	5	89,668,676	58,637,444
OTHER INCOME	6	244,462,085	87,442,238
RECURRENT GRANT	7	242,687,404	270,135,914
FAIR VALUE GAIN/(LOSS) ON BIOLOGICAL ASSETS	8	(9,885,439)	54,204,372
ADMINISTRATIVE EXPENSES	9	(291,160,718)	(271,688,763)
OTHER OPERATING EXPENSES (Audit Fee Provision)		-	(812,000)
		275,772,008	197,919,205
OPERATING (LOSS)/PROFIT		139,663,661	(87,929,788)
FINANCE (COST)/INCOME	10	13,639,002	9,246,961
(LOSS)/PROFIT BEFORE TAX		<u>153,302,663</u>	<u>(78,682,828)</u>
WITHHOLDING TAX		(2,044,585)	-
PROFIT/ LOSS AFTER TAX		<u>151,258,078</u>	<u>(78,682,828)</u>

STATEMENT OF FINANCIAL POSITION

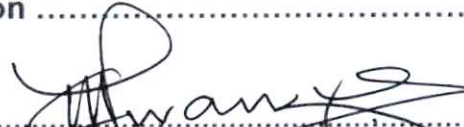
KENYA ORDNANCE
FACTORIES CORPORATION 2014/2015

AS AT 30/06/2015

	NOTES	2014-2015 KSHS	2013-2014 KSHS
NON-CURRENT ASSETS			
PROPERTY PLANT AND EQUIPMENT	11	3,108,219,275	3,094,166,785
		<u>3,108,219,275</u>	<u>3,094,166,785</u>
CURRENT ASSETS			
INVENTORY	12	1,037,560,058	1,070,068,335
BIOLOGICAL STOCKS	13	131,613,000	141,498,800
CASH AND BANK BALANCES	14	6,064,465	9,096,966
SHORT TERM INVESTMENT	15	287,000,000	341,000,000
TRADE AND OTHER RECEIVABLES	16	425,074,097	161,740,956
TAX RECOVERABLE	17	12,859,976	12,859,976
		<u>1,900,171,595</u>	<u>1,736,265,033</u>
EQUITY AND LIABILITIES		<u>5,008,390,871</u>	<u>4,830,431,817</u>
EQUITY			
GOVERNMENT INVESTMENT		5,122,530,513	5,122,530,513
REVALUATION SURPLUS		37,670,072	37,670,072
REVENUE RESERVES		(680,950,458)	(832,208,536)
		<u>4,479,250,127</u>	<u>4,327,992,049</u>
CURRENT LIABILITIES			
TRADE AND OTHER PAYABLES	18	529,140,745	502,439,768
TOTAL EQUITY AND LIABILITIES		<u>5,008,390,871</u>	<u>4,830,431,817</u>

The financial statements were approved by the Board of Directors

onand signed on its behalf by


.....(Director)
MAJ GEN C MWANZIA KA (Rtd)


.....(Managing Director)
MAJ GEN M M MUNYWOKI

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED 30/06/2015

	GOVERNMENT REVALUATION INVESTMENT KSHS	SURPLUS	REVENUE RESERVE KSHS	TOTAL KSHS
BALANCE AS AT 1st JULY 2014	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)
BALANCE AS AT 30th JUNE 2014	5,122,530,513	37,670,072	(832,208,536)	4,327,992,049
BALANCE AS AT 1st JULY 2014	5,122,530,513	37,670,072	(832,208,536)	4,327,992,049
Net (Loss)/Profit for the Year	-	-	151,258,078	151,258,078
BALANCE AS AT 30th JUNE 2014	5,122,530,513	37,670,072	(680,950,458)	4,479,250,127

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30/06/2015

	NOTE	YEAR ENDED 2014-2015 KSHS	YEAR ENDED 2014-2015 KSHS
Operating Activities			
(Loss)/Profit before tax		153,302,663	(78,682,828)
Adjustments for:			
Interest Income	10	(13,639,002)	(9,246,961)
Depreciation	19	104,015,364	102,734,843
Increase/Decrease in fair value of Biological Assets		9,885,439	(54,204,372)
Changes in working capital:			
(Increase)/Decrease in Inventory		32,508,277	(37,036,055)
(Increase)/Decrease in Debtors and prepayments		(263,333,141)	103,186,567
Increase/(Decrease) in Creditors and accruals		26,700,977	(21,088,641)
Cash generated from operations		49,440,577	5,662,554
Tax paid		(2,044,585)	-
Net Cash (used) generated from operating activities		47,395,992	5,662,554
Investing activities			
Purchase of fixed assets	20	(118,067,493)	(41,722,164)
Interest received	10	13,639,002	9,246,961
Net cash used for investing activities		(104,428,491)	(32,475,203)
Financing activities			
Government Investment		-	-
Increase/(Decrease) in cash and cash equivalents		(57,032,499)	(26,812,650)
Movement in cash and cash equivalents			
Cash and Cash Equivalent at the beginning of the year		350,096,966	376,909,616
Increase/(Decrease) during the year		(57,032,500)	(26,812,649)
Cash and Cash Equivalent as at 30th June 2015		293,064,465	350,096,966

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS			
REVENUE (Kshs)	Original budget	Actual on Comparable basis	Performance difference
	2014 - 2015	2014 - 2015	2014 - 2015
Ammo Sales	648,881,460	748,066,775	99,185,315
Disposal	500,000	122,748,041	122,248,041
General Engineering Sales	2,500,000	3,467,906	967,906
Water Sales	2,500,000	2,928,700	428,700
Farm Sales	65,000,000	89,668,676	24,668,676
Field Kitchen Fabrication	99,264,000	64,966,269	(34,297,731)
Interest Income	14,000,000	13,639,002	(360,998)
Bakery Sales	28,000,000	30,310,614	2,310,614
Water Bottling Sales	18,000,000	21,452,615	3,452,615
KOFC Grant	135,000,000	135,000,000	-
Total Income	1,013,645,460	1,232,248,597	218,603,137
Materials for Ammo Production	531,072,897	497,607,196	33,465,701
Carbide Tools	19,183,398		19,183,398
Auxilliary Parts for Tools Production	5,382,740	1,869,041	3,513,699
Materials for Tools Production	14,324,516	13,465,000.20	859,516
Consumables and Lab Chemicals	9,000,000	-	9,000,000
Water Treatment Expenses	2,555,400	394,000	2,161,400
Machine Spares	15,315,353	16,450,090	(1,134,737)
Electricity Expenses	25,000,000	27,203,948	(2,203,948)
Salaries and Allowances	139,000,000	137,921,233	1,078,767
Motor Vehicle Operating Expenses	17,000,000	17,035,734	(35,734)
Directors Allowances	2,000,000	294,001.00	1,705,999
Travelling and Accomodation	5,477,641	5,560,757	(83,116)
Official Entertainment	600,000	385,550	214,450
Telephone & Internet Expenses	2,500,000	2,201,316	298,684
Postal Expenses	300,000	145,610	154,390
Water and Conservancy	900,000	424,574.70	475,425
Purchase of Drugs and Dressings	30,000	2,000	28,000
Printing Expenses	50,000	5,625	44,375

Purchase of Protective Gear	1,000,000	217,164	782,836	
Purchase of Stationery	1,000,000	1,005,025	(5,025)	
Manuals & Technical Journals	350,000	363,090	(13,090)	
Maintenance of Buildings	1,000,000	193,716	806,284	
Payment of Rent	960,000	946,000	14,000	
Purchase of General Stores	2,000,000	1,262,242	737,758	
Insurance Expenses	15,747,819	18,547,649	(2,799,830)	
Clearing, Transport & Freight Charges	30,000,000	96,168,176	(66,168,176)	
ISO 9001:2008 Certification Expenses	1,000,000	334,080.00	665,920	
Bank Charges and Commission	5,000,000	2,916,594	2,083,406	
Maintenance of Roads	500,000	280,963.50	219,037	
Computer Expenses	500,000	751,432.00	(251,432)	
Legal and Consultancy Fees	50,000	108,500	(58,500)	
Audit Expenses	1,500,000	812,000	688,000	
Farm Expenses	39,250,000	39,117,270	132,730	
Mobile Field Kitchen Fabrication Exp	48,972,485	54,006,411.54	(5,033,927)	
Water Bottling Consumables	20,000,000	18,026,169.80	1,973,830	
Bakery Consumables	15,000,000	24,005,542.94	(9,005,543)	
Training Expenses/Research	5,900,000	1,463,439	4,436,561	
Sales and marketing	1,000,000	1,550,547	(550,547)	
Upgrading of Production Machines	1,800,000	18,690,000	(16,890,000)	
Purchase of Motor Vehicles	-	22,866,297	(22,866,297)	
Equipmt	200,000	955,295.70	(755,296)	
Purchase of Office Equipment	1,845,300	301,323	1,543,977	
Purchase of Security Equipment	288,150	9,200	278,950	
Purchase of Communication Equipment	100,000	-	100,000	
Laboratory Equipment	11,655,650	8,544,004	3,111,646	
Replacement of Water line Equipment	1,500,000	122,772.00	1,377,228	
Milling Plant Equipment	2,400,000	-	2,400,000	
Field Kitchen Fabrication Equipment	12,461,274	6,253,821	6,207,453	
Water Bottling Plant	12,000,000	15,419,164	(3,419,164)	
Bakery Upgrade	2,000,000	8,779,769	(6,779,769)	
Total Expenditure	1,026,672,623	1,064,983,334	(38,310,711)	
Surplus (Deficit) for the Period	(13,027,163)	167,265,262		

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, 2015.

Notes to the Financial Statements Continued:

3. Sales

	2015 Kshs	2014 Kshs
Ammunition Sales	748,066,775	470,936,703
Fabrication and Auxiliary repairs	<u>3,467,906</u>	<u>5,853,847</u>
	751,534,681	476,790,350

4. Cost of Sales

	2015 Kshs	2014 Kshs
Opening Stocks of finished goods	203,445,177	168,910,073
Production cost of finished goods	948,876,177	797,174,447
Closing stock of finished goods	<u>(264,678,264)</u>	<u>(203,455,177)</u>
Cost of Sales	(887,643,028)	762,639,343

5. Farm Income

	2015 Kshs	2014 Kshs
Shelled Maize/Boma Rhodes/Chenga	62,529,666	58,604,244
Maize Flour/Bran	<u>27,139,010</u>	<u>33,200</u>
	89,668,676	58,637,444

6. Other Income

	2015 Kshs	2014 Kshs
Piped Water	2,928,700	3,665,474
DEFKITCH 2012- Field Kitchen	64,966,269	-
Bottled Water	21,452,615	17,480,919
Scrap Metal	122,748,040	44,352,361
Bakery Products	30,310,614	19,915,173
Insurance Refunds	1,688,247	2,028,311
Tender Documents fees	50,000	-
Crop Destruction Fines	207,600	-
Donation(s)	<u>110,000</u>	<u>-</u>
	244,462,085	87,442,238

7. Recurrent Grant

	2015 Kshs	2014 Kshs
Operational Grant	135,000,000	135,000,000
Other Grant	<u>107,687,404</u>	<u>135,135,914</u>
Total government grants and subsidies	242,687,404	270,135,914

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

	2015 Kshs	2014 Kshs
Fair value at the beginning of the year	141,498,800	87,294,428
Decrease in Fair value due to harvesting	(39,117,631)	(42,059,526)
Additional at Cost	39,117,270	42,059,526
Fair Value loss/gain arising from physical changes	<u>(9,885,439)</u>	<u>54,204,372</u>
Fair Value at the end of the year	131,613,000	141,498,800

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

	2015 Kshs	2014 Kshs
Amortisation of power line installation costs	-	-
Motor vehicle running expenses	17,035,734	12,574,994
Travelling and accommodation	5,560,757	4,518,896
Administration salaries and allowances	73,682,591	75,562,801
Telephone and postage	2,346,926	2,496,674
Computer expenses	751,432	715,370
Official Entertainment	385,550	399,501
Directors Fees	294,001	1,048,683
Legal and Consultancy	108,500	5,000
Uniforms	217,164	402,100
Printing and Stationery	1,010,650	775,537
Rents	946,000	1,446,950
General stores	1,385,014	3,605,698
Training	376,807	150,000
Research & Development, Welfare, Gas and Solid Fuel	1,086,633	9,000
Bank charges	2,916,594	3,972,045
Medical expenses	2,000	23,490
Electricity	5,440,790	5,444,285
Depreciation:		
Motor vehicles	3,362,801	2,219,486
Buildings and civil works	1,727,313	1,727,313
Furniture and fittings	186,814	183,801
Waterline and civil works	953,474	951,698
Computers	596,493	5,762,438
Advertising	1,550,547	190,410

**KENYA ORDNANCE
FACTORIES CORPORATION 2014/2015**

Newspapers and periodicals	363,090	342,630
Domestic and household expenses/Office Equipments	955,296	236,930
Insurance	3,709,530	2,689,332
Building and roads maintenance	474,679	141,998
Clearing and transportation expense	26,998,288	26,350,018
Audit fees	812,000	812,000
ISO Certification	334,080	367,700
Water and Conservancy	424,575	783,925
Security Expenses	9,200	1,082,974
Field Kitchen Fabrication	54,006,412	9,573,067
Farm Expenses	39,117,270	42,059,526
Bakery Consumables	24,005,543	17,853,372
Water Bottling Consumables	18,026,170	28,638,085
Kenya Revenue Tax Arrears and Penalties	-	17,575,582
Milling Plant Consumables	2,410,262	-
TOTAL EXPENDITURE	291,160,718	272,500,763

10. Finance Income - External investments

	2015	2014
	Kshs	Kshs
Fixed Deposits Interest	<u>13,639,002</u>	<u>9,246,961</u>
Total finance income - external investments	13,639,002	9,246,961

Notes to the Financial Statements Continued:

11. Property Plant and Equipment

AS AT 30/06/2015

COST	BUILDING AND	WATERLINE AND WORK IN	PLANT, EQUIPMENT & MOTOR VEHICLE:	FURNITURE AND COMPUTERS	TOTAL			
	CIVIL WORKS	CIVIL WORKS	PROGRESS	MACHINERY				
	KSHS	KSHS	KSHS	KSHS	KSHS			
1st JULY 2014	863,656,515	475,849,061	47,353,774	2,862,436,526	44,389,725	18,380,102	24,515,169	4,336,580,872
CAPITALIZED	-	-	-	-	-	-	-	-
ADDITIONS	-	888,181	64,554,278	28,237,714	22,866,297	301,323	1,219,700	118,067,493
30th JUNE 2015	863,656,515	476,737,242	111,908,052	2,890,674,240	67,256,022	18,681,425	25,734,869	4,454,648,365
DEPRECIATION								
ACCUMULATED AS AT								
1st JULY 2014	131,740,802	73,525,526	-	966,810,103	34,778,793	11,811,944	23,746,558	1,242,413,726
CHARGE FOR THE YEAR	8,636,565	4,767,372	-	72,266,856	16,814,006	934,071	596,493	104,015,364
ACCUMULATED AS AT								
30th JUNE 2015	140,377,367	78,292,898	-	1,039,076,959	51,592,799	12,746,015	24,343,051	1,346,429,090
NET BOOK VALUE								
30th JUNE 2015	723,279,148	398,444,344	111,908,052	1,851,597,281	15,663,224	5,935,410	1,391,818	3,108,219,275
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

12. Inventories

	2015	2014
	Kshs	Kshs
Raw materials, Chemicals	489,211,582	483,613,426
Oils and Lubricants	24,024,800	1,552,162
Raw Materials Primers/Powder, Field Kitchen and Tools/Dies	165,373,446	-
Water Bottling Raw Materials	-	3,885,474
Field Kitchen Materials (Cooking Pots)	21,452,615	22,092,105
Work in Progress	42,919,851	179,600,371
Finished goods	264,678,264	203,445,177
Shelled Maize Stock	26,392,500	56,877,000
Production Scrap Metal	<u>3,507,000</u>	<u>119,222,620</u>
Total inventories at the lower of cost and Realizable value	1,037,560,058	1,070,068,335

13. Biological Asset

	2015	2014
	Kshs	Kshs
Maize	37,500,000	42,059,526
Assorted Trees	80,961,000	99,439,274
Wheat	2,352,000	-
Pasture	<u>10,800,000</u>	<u>-</u>
	131,613,000	141,498,800

14. Cash and Cash Equivalents

	2015	2014
	Kshs	Kshs
Kenya Commercial Bank	922,990.67	4,662,552.19
Co-operative bank of Kenya	414,079.40	919,266.57
Co-operative Bank of Kenya	2,853,750.75	465,928.50
Equity Bank	994,444.00	437,217.68
National Bank of Kenya	5,672.39	-
Cash on Hand	<u>873,527.20</u>	<u>2,612,001.00</u>
Total cash and cash equivalents	6,064,464.41	9,096,966.94

15. Cash and Cash Equivalents

	2014	2014
	Kshs	Kshs
Short Term Deposits	<u>287,000,000</u>	<u>341,000,000</u>
	287,000,000	341,000,000

16. Trade and other receivables

	2015	2014
	Kshs	Kshs
Current Receivables		
Ammunition and Service Debtors	204,746,995	39,421,002
Other Exchange Debtors	119,080,509	85,844,583
Claimable Value Added Tax	<u>101,246,592</u>	<u>36,475,371</u>
	425,074,097	161,740,956

17. Tax Recoverable

	2015	2014
	Kshs	Kshs
Tax Recoverable from KRA	12,859,976	12,859,976

18. Trade and Other Payables from exchange transactions

	2015	2014
	Kshs	Kshs
Trade payables	277,354,627	320,616,250
Payments received in advance	140,000,000	140,000,000
Other payables	111,786,118	41,823,518
Total trade and other payables	529,140,745	502,439,768

19. Depreciation and Amortization

	2015	2014
	Kshs	Kshs
Building and Civil Works	8,636,565	8,636,565
Waterline and Civil Works	4,767,372	4,758,491
Plant, Equipment and Machinery	72,266,856	71,560,913
Motor Vehicles	16,814,006	11,097,431
Furniture and Fittings	934,071	919,005
Computers	596,493	5,762,438
Total depreciation and amortization	104,015,364	102,734,843

20. Purchase of Fixed Assets

	2015	2014
	Kshs	Kshs
Work in progress (Thika plant/Bakeries)	64,554,278	27,156,774
Plant Equipment & Machinery	28,237,714	2,481,980
Motor Vehicles	22,866,297	9,158,000
Furniture and Fittings	301,323	1,827,394
Computers	1,219,700	1,098,016
Waterline and Civil Works	888,181	-
	118,067,493	41,772,164

21. Bulk Purchase of electricity

	2015	2014
	Kshs	Kshs
Electricity	27,203,948	27,221,423
Total bulk purchase	27,203,948	27,221,423

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:

	2015 Kshs	2014 Kshs
Ammo Sales	751,534,681	476,790,350

	2015 Kshs	2014 Kshs
Financial Grant	135,000,000	135,000,000

	2015 Kshs	2014 Kshs
Employee Cost		
KOFC personal Salaries and Allowances	135,826,990	131,102,338
Seconded Personnel Salaries and Allowances	107,687,405	120,773,666
Total Employee cost	243,514,395	251,873,004

	2015 Kshs	2014 Kshs
Directors Allowances		
Directors Allowances	294,001	1,048,683
Total directors allowances	294,001	1,048,683

23. Contracted Services

	2015 Kshs	2014 Kshs
Legal and consultancy	108,500	5,000
Certifications	334,080	367,700
Insurance Brokerage	18,547,649	11,418,348
Total contracted services	18,990,229	11,791,048

24. Cash generated from operations

	2015 Kshs	2014 Kshs
Surplus/Deficit for the year before tax	153,302,663	(78,682,828)
Adjusted for:		
Depreciation	104,015,364	102,734,843
Finance Income	(13,639,002)	(9,246,961)
Increase/decrease in fair value of biological assets	9,885,439	(54,204,372)
Working Capital adjustment:		
Increase in Inventory	32,508,277	(37,036,055)
Increase in receivables	(263,333,141)	103,186,567
Increase in payables	26,700,977	(21,088,641)
Tax Paid	(2,044,585)	
Net cash flow from operating activities	47,395,992	5,662,554

25. Retirement Benefits Scheme

The Corporation operates a defined contribution retirement plans for eligible employees. The assets of the plans are held separately from those of the Corporation in funds under the control of trustees. The scheme is administered by an independent administration company and is funded by contributions from the Corporation employees. The Corporation obligations to the staff retirement benefits plans are charged to profit or loss as they fall due as they accrue to each employee. The Corporation also makes contributions to the statutory defined contribution schemes. The only obligation of the Corporation with respect to the retirement benefit plan is to make the specified contributions. The expense in respect to NSSF and Employer Pension contribution of Ksh 513,800 and Ksh 6,840,692.00 respectively has been included within the retirement benefits costs under staff costs in the notes.

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:

32. DETAILED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30/06/2015

	NOTE	YEAR ENDED 2014-2015 KSHS.	YEAR ENDED 2013-2014 KSHS.
SALES		751,534,681	476,796,350
LESS:			
Opening stock of finished goods		203,445,177	168,910,073
Production cost of finished goods		948,876,115	797,174,447
Closing stock of finished goods		(264,678,264)	(203,445,177)
COST OF GOODS SOLD		887,643,028	762,639,343
TRADING (LOSS)/PROFIT		(136,108,347)	(285,848,993)
DEFKITCH 2012 (Field Kitchen Sales)		64,966,269	-
Bank interest income		13,639,002	9,246,961
Water Sales		24,381,315	21,146,393
Scrap Sales		122,748,041	44,352,361
Milling Sales		27,139,010	33,200
Farm income		62,529,666	58,604,244
Bakery Sales		30,310,614	19,915,173
Insurance Refund/Fines/Tender sales/Donations		2,055,847	2,028,311
Recurrent Grants		242,687,404	270,135,914
Fair Value Gain/(Loss) on Biological Assets		(9,885,439)	54,204,372
		444,463,380	193,817,935
EXPENDITURE			
Amortisation of powerline installation costs		-	-
Motor vehicle running expenses		17,035,734	12,574,994
Travelling and accomodation		5,560,757	4,518,896
Administration salaries and allowances		73,682,591	75,562,801
Telephone and postage		2,346,926	2,496,674
Computer expenses		751,432	715,370
Official Entertainment		385,550	399,501
Directors Fees		294,001	1,048,683
Legal and Consultancy		108,500	5,000
Uniforms		217,164	402,100
Printing and Stationery		1,010,650	775,537
Rents		946,000	1,446,950
General stores		1,385,014	3,605,698
Training		376,807	150,000
Research & Development, Wefare, Gas and Solid Fuel		1,086,633	9,000
Bank charges		2,916,594	3,972,045
Medical expenses		2,000	23,490
Electricity		5,440,790	5,444,285

Depreciation:		
Motor vehicles	3,362,801	2,219,486
Buildings and civil works	1,727,313	1,727,313
Furniture and fittings	186,814	183,801
Waterline and civil works	953,474	951,698
Computers	596,493	5,762,438
Advertising	1,550,547	190,410
Newspapers and periodicals	363,090	342,630
Domestic and household expenses/Office Equipments	955,296	236,930
Insurance	3,709,530	2,689,332
Building and roads maintenance	474,679	141,998
Clearing and transportation expense	26,998,288	26,350,018
Audit fees	812,000	812,000
Iso Certification	334,080	367,700
Water and Conservancy	424,575	783,925
Security Expenses	9,200	1,082,974
Communication Expenses	-	-
Field Kitchen Fabrication	54,006,412	9,573,067
Farm Expenses	39,117,270	42,059,526
Bakery Consumables	24,005,543	17,853,372
Water Bottling Consumables	18,026,170	28,638,085
Kenya Revenue Tax Arrears and Penalties	-	17,575,582
Milling Plant Consumables	2,410,262	-
TOTAL EXPENDITURE	<u>291,160,718</u>	<u>272,500,763</u>
Withholding Tax	(2,044,585)	-
OPERATING (LOSS)/PROFIT	<u><u>151,258,078</u></u>	<u><u>(78,682,828)</u></u>

Notes to the Financial Statements Continued:

33. MANUFACTURING ACCOUNT

FOR YEAR ENDED 30TH JUNE 2015

	YEAR ENDED 2014-2015 KSHS	YEAR ENDED 2013-2014 KSHS
DIRECT COSTS:		
Opening stock of raw materials	447,065,215	438,965,347
Purchases of raw materials	512,941,257	512,907,970
	<u>960,006,472</u>	<u>951,873,317</u>
Less:		
Closing stock of raw materials	(513,236,382)	(447,065,215)
Cost of raw materials used	<u>446,770,090</u>	<u>504,808,102</u>
Add:		
Direct labour	171,926,046	176,313,203
Prime cost	<u>618,696,136</u>	<u>681,121,305</u>
FACTORY OVERHEADS:		
Insurance	14,838,119	10,757,327
Electricity	21,763,159	21,777,138
Water & effluent treatment chemicals consumables	-	787,066
Machine spares & maintenance	8,544,004	20,566,461
Depreciation:		
Plant and machinery	72,266,856	71,560,913
Motor vehicles	13,451,204	8,877,945
Buildings and civil works	6,909,252	6,909,252
Furniture and fittings	747,257	735,204
Waterline and civil works	3,813,898	3,806,793
	<u>158,783,839</u>	<u>167,563,541</u>
TOTAL	777,479,975	848,684,846
Opening work-in-progress	164,600,371	134,847,167
Opening scrap	53,222,620	31,465,425
Less:		
Closing work-in-progress	(42,919,851)	(164,600,371)
Closing scrap	(3,507,000)	(53,222,620)
PRODUCTION COST OF FINISHED GOODS	<u>948,876,115</u>	<u>797,174,447</u>

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	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 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 stalled due to squatters who could not allow surveyors access the land in the buffer zone. The buffer zone is necessary to ensure safety of the people in the neighborhood and security of factory in accordance with international standards.	All parcels of land including land registration numbers Kakamega/Sango/1970, LR No. 27206/01 and LR No. 27206/2 measuring 0.48 hectares, 908 hectares and 727.7 hectares respectively have not been valued and included in the financial statements. The process of valuing all the Corporation land is at an advanced stage. Survey works to pave way for the issuance of title deeds and subsequent valuation which had initially stalled due to interference by the squatters was concluded by surveyors from the Ministry of lands and the beacons to cover the buffer zone confirmed by the management on 04 June 2014. Once the title is released by the Ministry of Lands, we shall engage a valuer to value all the Corporation lands and thereafter same will be reported in the financial statements. This matter is currently being handled by Kenya Defence Headquarters in conjunction with Ministry of Lands and KOFC.	Board of Directors and Parent Ministry	Valuation yet to be done	

KENYA ORDNANCE FACTORIES CORPORATION

FACTORIES CORPORATION 2014/2015


2	<p>The Corporation did not during the year under review update the fixed assets register and ledger. Further, the Corporation failed to provide for audit review the detailed schedules in support of buildings and civil works, waterline and civil works, work in progress, plant and equipment, motor vehicles, furniture and fittings. Consequently, the accuracy of fixed assets balance of Ksh 3,094,166,785 as at 30 June 2014 could not be confirmed.</p>	<p>The existing asset register reflects all the various assets heads in block figures obtained from records from the Treasury. The figures in the asset register are the ones we are currently depreciating to date. However, to enable us update the register and to capture all the assets individual value, we have engaged Ministry of Lands to value all the Corporation assets including land and thereafter we shall be able to update the register and depreciate them accordingly.</p>	Human Resources Department	Ministry of Lands are yet to visit the Corporation to undertake the valuation	30 June 2016
3	<p>As reported in previous years, trade and other receivables balance of Ksh 161,740,956 as at 30 June 2014 includes tax recoverable from Kenya Revenue Authority of Ksh 36,475,371.00 which has been outstanding for the last eight years. Further, another tax refund claim of Ksh 12,859,976 has not been recovered for the past 13 years and no provision was made by the Corporation in FY 2013/2014 to cover the uncertainty of collectability of the refund. As a result, the accuracy of the trade and other receivables balance of Ksh 161,740,956 could not be confirmed.</p>	<p>Although the Corporation will continue following up on the refund we would wish to carry out an impairment review and reduce the carrying amount of the claims either directly or through use of an allowance account. This will be adopted and incorporated in the FY 14/15 financial statements in the event that the corporation may not have been refunded.</p>	Daniel Kibet Towett - Finance Manager	A decision to be made during the next BoD (50th Board of Directors meeting)	30 June 2016

KENYA ORDNANCE FACTORIES CORPORATION

FACTORIES CORPORATION 2014/2015

4	<p>The financial statements show inventory of Ksh 1,070,068,335.00 as at 30 June 2014 indicated as having been valued at lower cost and net realizable values. However, records availed for audit review reflected an amount of Ksh 992,762,545.00 resulting to unexplained and un reconciled variance of Ksh 77,305,790.00. Consequently, the accuracy of the inventory figure of Ksh 1,070,068,335.00 as at 30 June 2014 could not be confirmed.</p>	<p>Part of the inventory in question are the poor quality primer and propellant powder, chemicals plus rejects from the production line. Part of the measures being put in place are destruction of condemned assorted ammo, propellant powder and primers.</p>	Board of Directors	<p>A decision to be made during the next BoD (50th meeting)</p>	
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Managing Director

Director

