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REPORT

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DATE: 27 JUN 2018

TABLED BY: Hon. Washali Majority Party Whip

CLERK-AT-THE-TABLE: Lemun Moses

DAY: 27 JUN 2018

THE AUDITOR-GENERAL

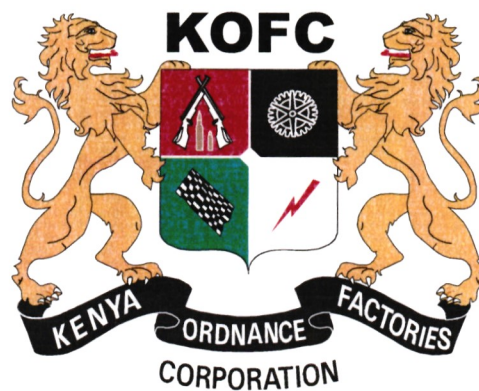
ON

THE FINANCIAL STATEMENTS OF KENYA ORDNANCE FACTORIES CORPORATION

FOR THE YEAR ENDED 30 JUNE 2018



CONFIDENTIAL



REGULATORY AND NON – COMMERCIAL ENTITY

**KENYA ORDNANCE FACTORIES
CORPORATION**

**AUDITED ANNUAL REPORT AND
FINANCIAL STATEMENTS**

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

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

CONFIDENTIAL



**KENYA ORDNANCE FACTORIES CORPORATION
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

KEY MANAGEMENT/BOARD OF DIRECTORS

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



General S J Mwathethe
Chairman



Lt Gen R K Kibochi
Director



Maj Gen S N Thuita
Director



Maj Gen L F Mghalu
Director



Mr Saitoti Torome
Principal Secretary MoD



Maj Gen (Rtd) C Mwanzia
Director up to 27 Apr 18



Maj Gen (Rtd) M O Oyugi
Director



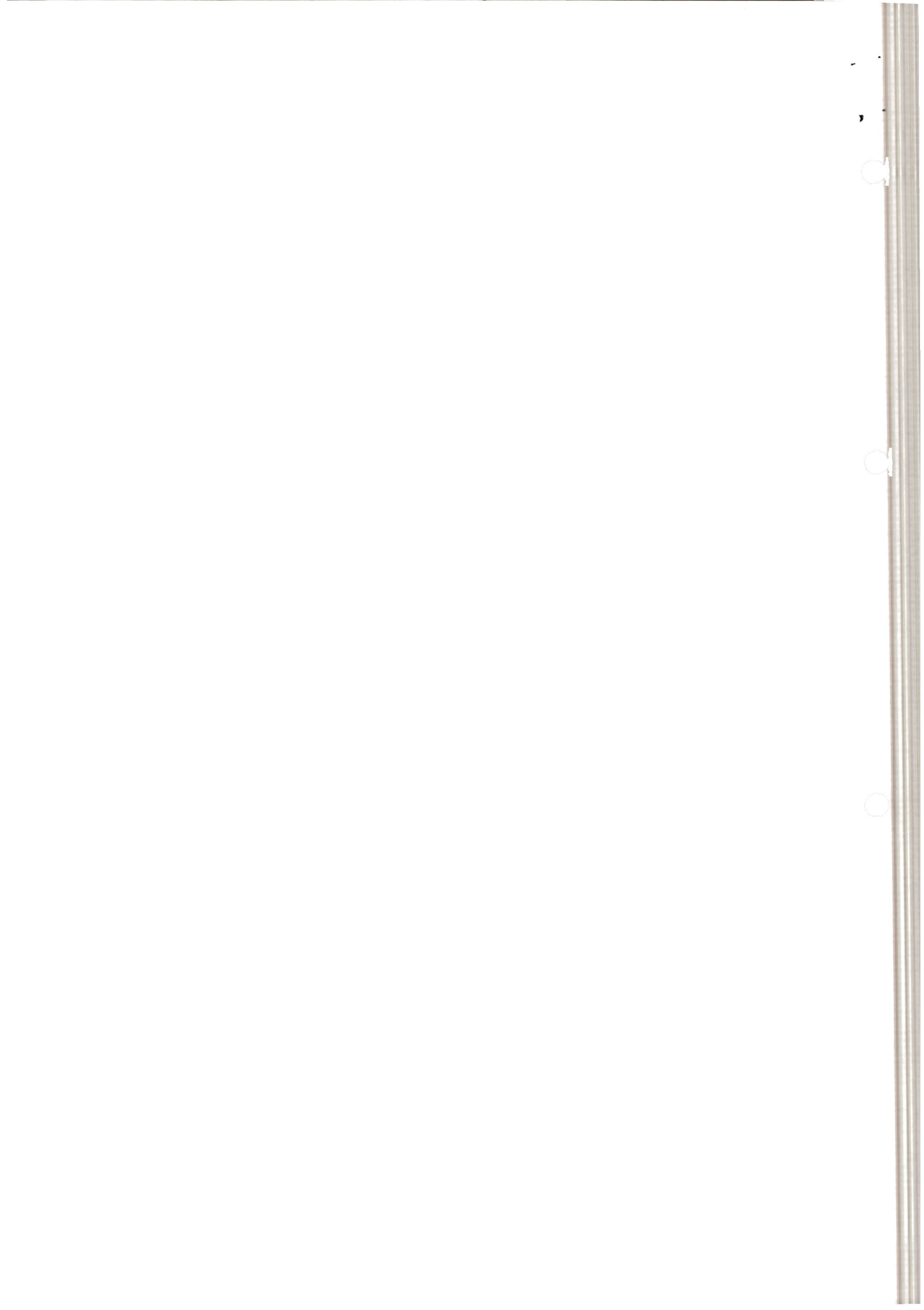
Maj Gen (Rtd) P O Awitta
Director



Maj Gen (Rtd) H Tangai
Director as from 19 Jun 18



Dr Kamau Thuge
PS National Treasury



**KENYA ORDNANCE FACTORIES CORPORATION
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FOR THE YEAR ENDED JUNE 30, 2018**



Mr O Ontweka
Alternate Director National Treasury



Maj Gen M M Munyoki
Managing Director

Directors who left during the year were:

Maj Gen (Rtd) C Mwanzia

Director up to 27 Apr 18



**KENYA ORDNANCE FACTORIES CORPORATION
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

FIDUCIARY/MANAGEMENT TEAM

The managers who held office during the year were:



Maj Gen Michael M Munyoki
Managing Director



Col C N Mathenge
General Manager
Up to 20 Jun 18



Col D O Odeny
DHQ Legal Officer



Lt Col A M Nteere
Human Resources Manager
Up to 22 Feb 17



Lt Col B N Njiraini
Production Manager



Lt Col S M Kithuva
Human Resources Manager
As from 12 Nov 17



Lt Col C P A Nyongo
Procurement Manager
As from 11 Aug 17



Lt Col O M Rajab
Maintenance Manager
Up to 18 Feb 18



Lt Col H Kiprotich
Maintenance Manager
As from 5 Mar 18



**KENYA ORDNANCE FACTORIES CORPORATION
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Maj Edward R Githui
Procurement Manager
Up to 14 Aug 17



Maj Guido A Leariwala
Security & Safety Manager
Up to 03 Nov 17



Maj D N Mutiso
Plant Manager



Mr Leo K Kerich
Quality Assurance Manager



Mrs Magdalene Ochola
Commercial Services Manager



Capt J N Munjogu
Plant Manager



Mr. Moses Njenga Njogu
Farm Manager
As from 5 Sept 17



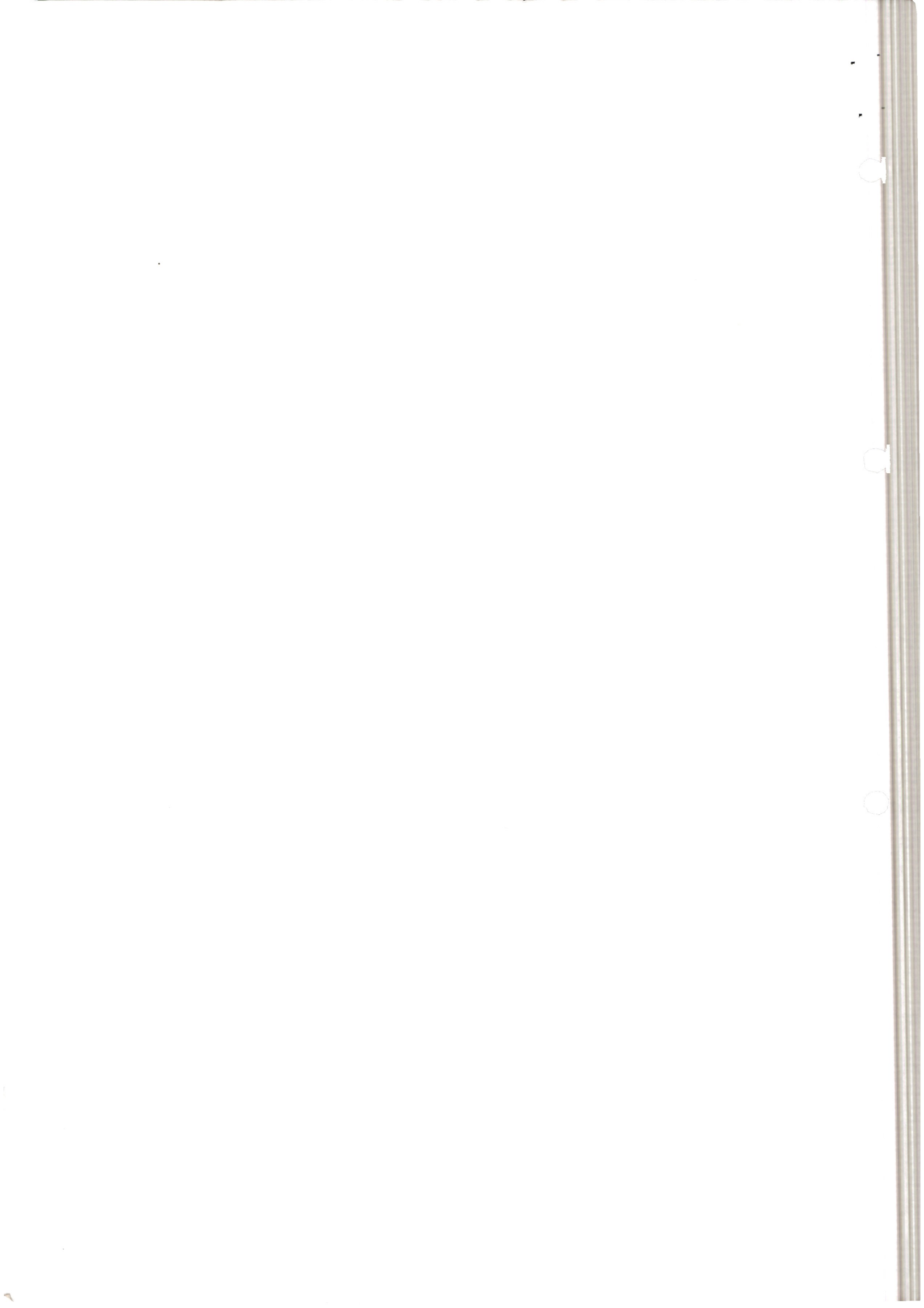
Mr. Daniel K Towett
Finance Manager

Managers who left during the year were:

Col C N Mathenge	General Manager left on 28 Jun 18
Lt Col A M Nteere	Human Resources Manager left on 22 Feb 2017
Lt Col O M Rajab	Maintenance Manager left on 18 Feb 18
Maj Edward R Githui	Procurement Manager left on 14 Aug 17
Maj Guido A Leariwala	Security and Safety Manager left on 3 Nov 17

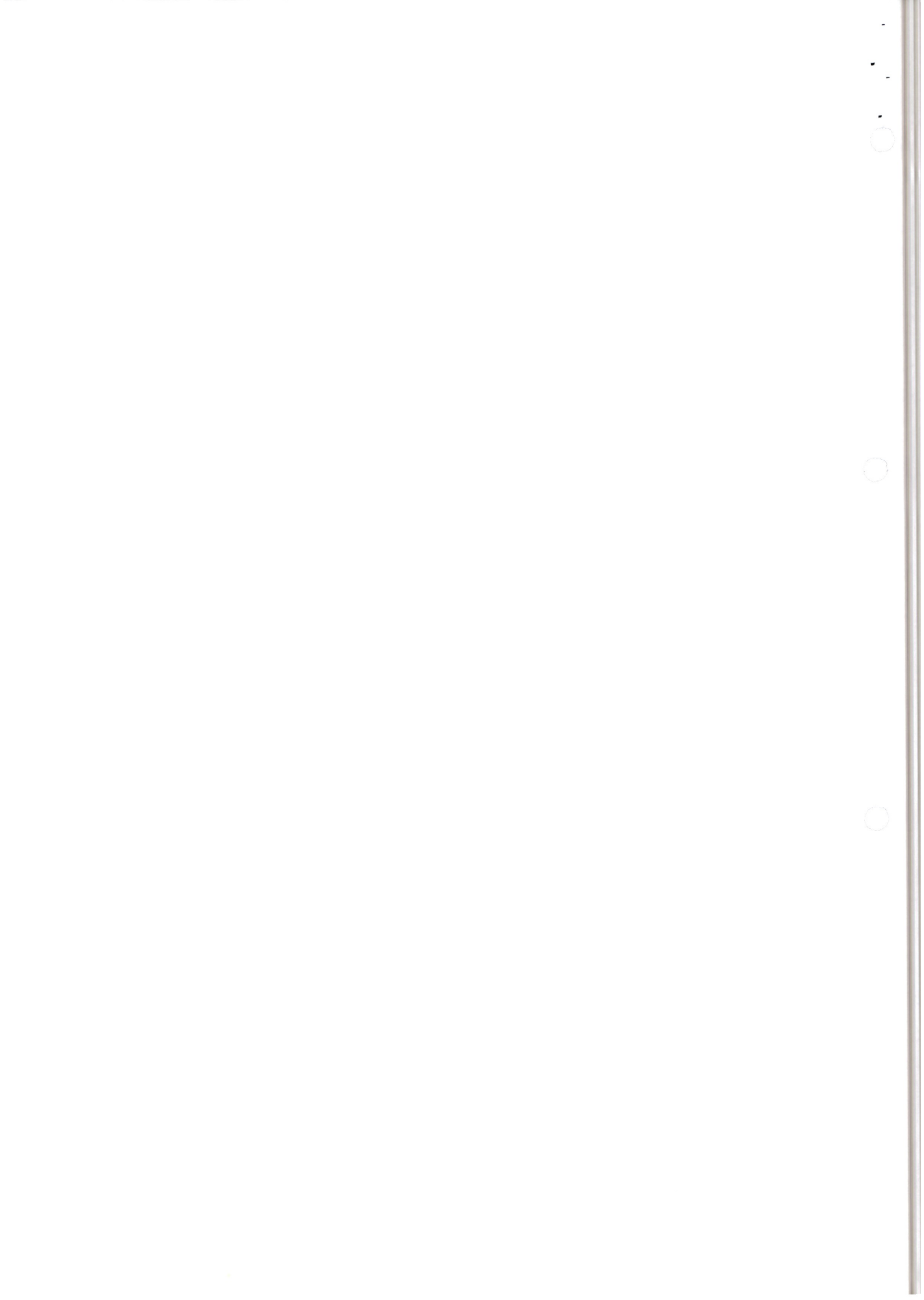
BY ORDER OF THE BOARD

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



**KENYA ORDNANCE FACTORIES CORPORATION
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**KENYA ORDNANCE FACTORIES CORPORATION
REPORT AND FINANCIAL STATEMENTS
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CORPORATE INFORMATION

INCORPORATION

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

KOFC is a licensed ammunition dealer and water undertaker.

MANDATE

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

VISION

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

MISSION

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

OBJECTIVES

KOFC has established its objectives as follows;

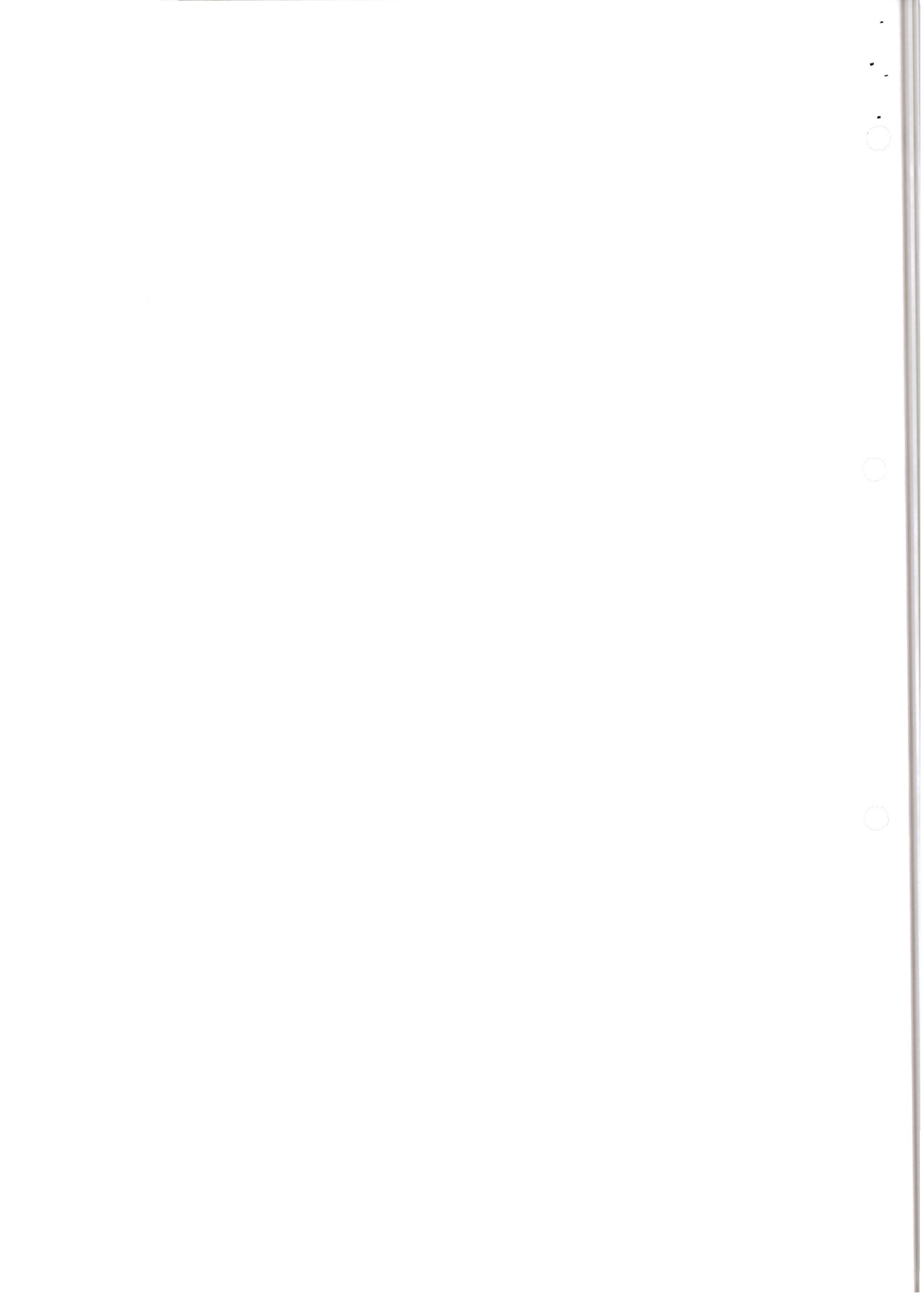
- Self-sufficiency in supply of small arms ammunition
- Transfer of relevant technology
- Sale of surplus ammunition to friendly countries
- Create employment in line with Vision 2030
- Enhance Industrialization in line with vision 2030.

ISO CERTIFICATION

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

**REGISTERED OFFICE AND
PRINCIPAL PLACE OF BUSINESS**

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



**KENYA ORDNANCE FACTORIES CORPORATION
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FOR THE YEAR ENDED JUNE 30, 2018**

BANKERS

Co-operative Bank of Kenya

Eldoret Branch
P. O. Box 2948 30100 - Eldoret
Kenya

Kenya Commercial Bank

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

Equity Bank of Kenya

Eldoret Branch
P.O. Box 2201 30100 - Eldoret
Kenya

National Bank of Kenya

Eldoret Branch
P.O. Box 2201 30100 - Eldoret
Kenya

PRINCIPAL LEGAL ADVISER

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

INDEPENDENT AUDITOR

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

**KENYA ORDNANCE FACTORIES CORPORATION
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

DIRECTORS REPORT

The Directors present the audited Financial Statements for the Year ended 30th June 2018

RESULTS

The Loss for the year was **Kshs 258,692,444**

THE ROLE OF THE BOARD

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

BOARD MEETINGS

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

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

COMPOSITION OF THE BOARD OF DIRECTORS

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

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

BOARD COMMITEES

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

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

**KENYA ORDNANCE FACTORIES CORPORATION
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FOR THE YEAR ENDED JUNE 30, 2018**

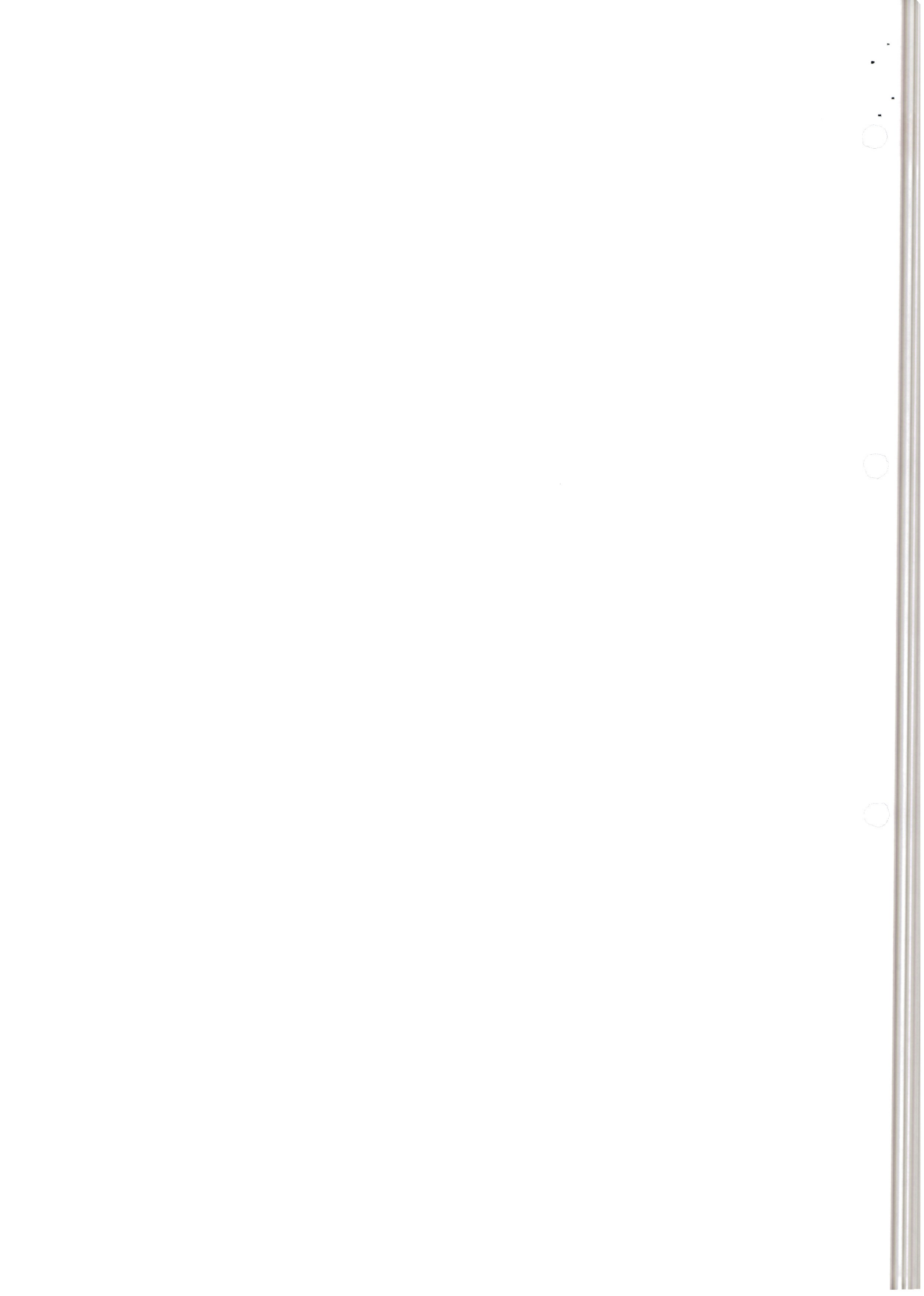
CORPORATE GOVERNANCE STATEMENT

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

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

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

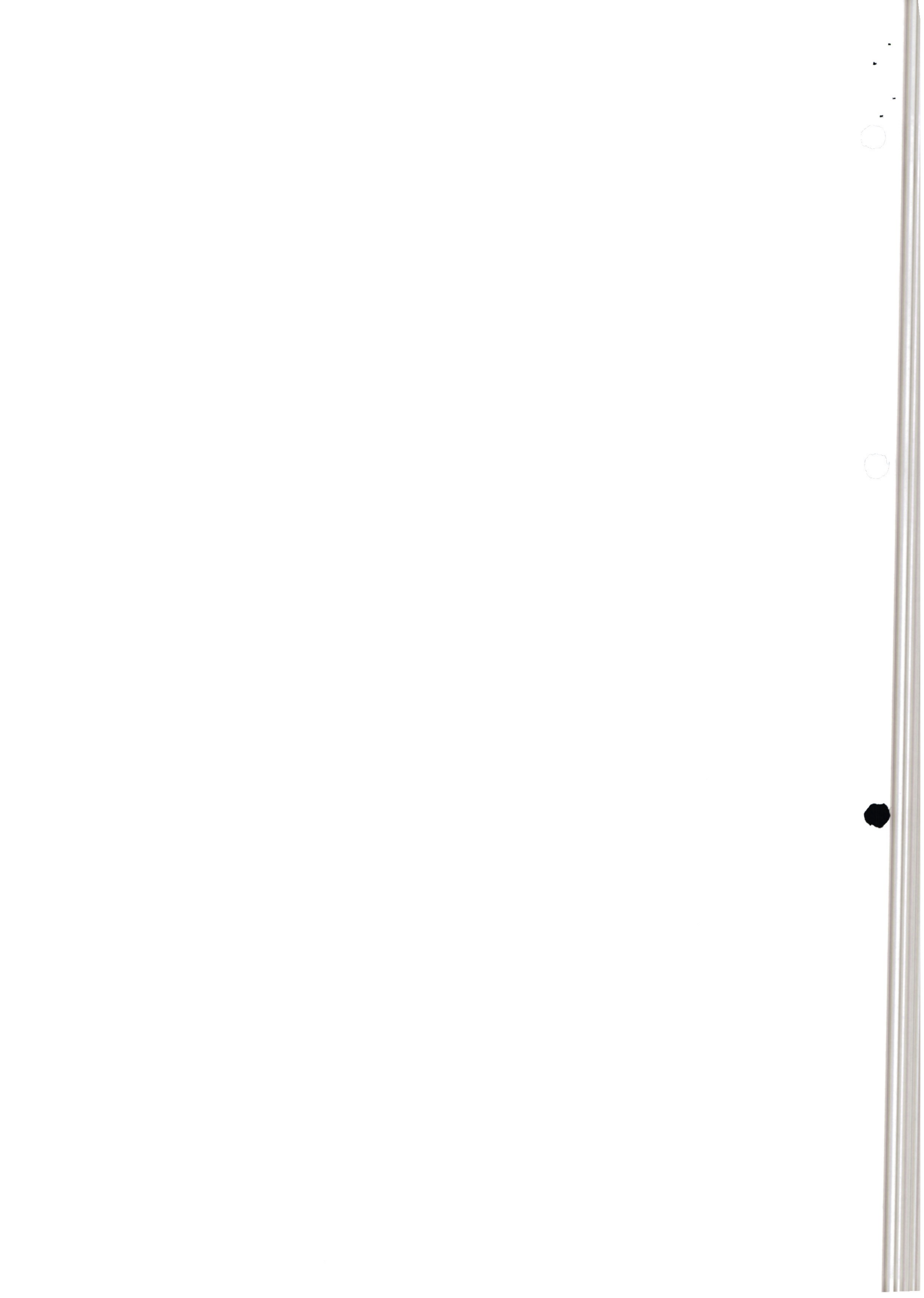
The Board has three standing committees, which meet regularly under the terms of reference set by the Board. The Corporation has defined procedures and financial controls to ensure the reporting of complete and accurate accounting information. These cover systems for obtaining authority for major transactions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



**KENYA ORDNANCE FACTORIES CORPORATION
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CORPORATE SOCIAL RESPONSIBILITY (CSR)

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



**KENYA ORDNANCE FACTORIES CORPORATION
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

STATEMENT OF DIRECTORS RESPONSIBILITIES

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


The Directors are responsible for the preparation and presentation of the State Corporations financial statements which give a true and fair view of the state of affairs of the Corporation for and as at the end of the financial year 2017/2018 ended on June 30, 2018. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Corporation; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Corporation; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

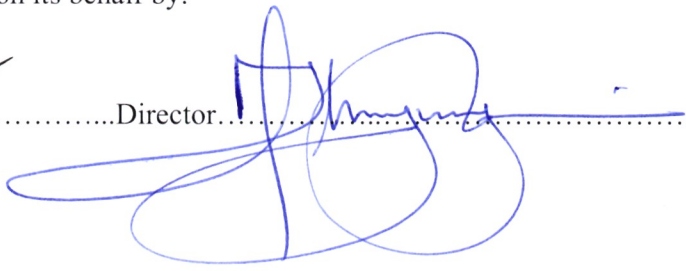
The directors accept responsibility for the Corporations financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgment and estimates, in conformity with International Public Sector Accounting Standards (IPSAS) and in the manner required 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, 2018, and the Corporation financial position as at that date. The directors further confirm the completeness of the accounting records maintained for the Corporation which have been relied upon in the preparation of the Corporation's financial statements as well as adequacy of the systems of internal financial control.

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

Approval of the financial statements

The Kenya Ordnance Factories Corporation financial statements were approved by the Board on March 14 2018 and signed on its behalf by:

Director.....

Director.....



REPUBLIC OF KENYA

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Fax: +254-20-311482
E-Mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA ORDNANCE FACTORIES CORPORATION FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Ordnance Factories Corporation set out on pages 12 to 71, which comprise the statement of financial position as at 30 June 2018, 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 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya Ordnance Factories Corporation as at 30 June 2018, 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.

Basis for Qualified Opinion

1.0 Property Plant & Equipment

1.1 Land

The statement of financial position as at 30 June 2018 and note 11 to the financial statements reflect non-current assets figure of Kshs.3,062,990,916. However, as reported in previous years, the Corporation only has title documents for land measuring 727.7 hectares on which the factory stands. The Corporation further requested the Government to allocate it additional 908 hectares to enable it attain the required safety distance for the factory, subsequent to which an allotment letter for additional land was issued. The process of surveying the additional 908 hectares started in February 2011 but stalled due to squatters who could not allow surveyors access to the land in the buffer zone which is necessary to ensure safety of the people in the neighbourhood and security of the factory in accordance with International Standards.

Report of the Auditor-General on the Financial Statements of Kenya Ordnance Factories Corporation for the year ended 30 June 2018

In addition, all parcels of land including land registration numbers Kakamega/Sango/1970.LR No.27206/1 and LR No.27206/2 measuring 0.48 hectares, 2,545 hectares and 727.1 hectares respectively have not been valued and included in these financial statements.

Consequently, the accuracy and completeness of the non-current assets balance of Kshs.3,062,990,916 as at 30 June 2018 could not be confirmed.

1.2 Idle Machinery

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

In the circumstances, the accuracy and completeness of the non-current assets' balance of Kshs.3,062,990,916 could not be confirmed as at 30 June 2018.

1.3 Assets Register

The statement of financial position reflects property plant and equipment figure of Kshs.3,062,990,916 as at 30 June 2018 comprising of building and civil works, water line and civil works, work in progress, plant equipment and machinery, motor vehicles, furniture and fittings and computers with total cost of Kshs.4,761,588,611 as disclosed in note 11 to the financial statements. The assets register availed for audit review reflects total assets as shown below;

Asset Description	Total Cost as at 30 June 2018 Kshs.
Building and Civil Works	880,330,641
Waterline and Civil Works	476,737,242
Work-In-Progress	190,949,523
Plant Equipment, Machinery	3,010,330,448
Motor Vehicles	129,815,489
Furniture and Fittings	25,075,650
Computers	48,349,619
Total	4,761,588,611

However, as reported in previous years, a schedule with details of the buildings, civil works, waterline plant, equipment and machinery, furniture and fittings has not been provided for audit verification. Although management explained that the register indicates the block figures that were obtained from the records of the contractor and that the Ministry of Defence is working with the government chief valuer of the Ministry of Lands Housing and settlement to value all the Corporation assets including land so that the same can be properly documented, no documentary evidence has been provided in support. It is therefore not known when the process of valuing of the assets shall be completed and the register updated.

Consequently, the accuracy, validity and existence of the assets' balance of Kshs.3,062,990,916 could not be confirmed.

2.0 Trade and Other Receivables

2.1 Claimable Value Added Tax

As previously reported, the statement of financial position reflects trade and other receivables' figure of Kshs.586,917,820 as at 30 June 2018 which includes claimable value added tax amount of Kshs.111,957,288 as disclosed in note 16 to the financial statements and which is indicated as Kshs.73,098,600 due from Ministry of Defence. However, no record has been provided for audit verification to ascertain how the amounts were arrived at. Information available indicates that the amount of Kshs.73,098,600 includes Kshs.68,861,381 which was ascertained when the corporation filed a VAT claim of 81,000,000 with the Kenya Revenue Authority (KRA) for the period September 2013 and July 2014 in November 2014 which was however long after the due date. Records reviewed indicated that the input tax on imported raw materials was paid by the Ministry of Defence on behalf of the corporation using its PIN No P051098785V while the claim was filed by the corporation using the Corporation PIN No. P051121081J but there was no evidence to indicate that the two entities are jointly registered for VAT refund. Although the Corporation has now indicated that the amount is due from the Ministry of Defence, there has been no documentary evidence to show that the Ministry of Defence is pursuing the claim on behalf of the Corporation and if the amount is still recoverable.

Further, included in the claimable VAT amount of Kshs.111,957,288 is an amount of Kshs.36,377,490 claimable for the year 2003. However, letter Ref No. KRA/DTD/AM&RD/007 dated 22 February 2017 from Kenya Revenue Authority indicates that the withholding VAT Refund of Kshs.36,377,490 is not payable as the claim was submitted late and therefore time bared. Although, the Corporation has indicated that it has engaged a tax consultant in March 2018 to follow up the claim, there has been no indication of the progress made in recovering the claim.

Consequently, the recoverability of the claimable VAT amount of Kshs.111,957,288 is doubtful and the accuracy of the trade and receivables balances of Kshs.586,917,820 as at 30 June 2018 could not be confirmed.

2.2 Other Exchange Debtors

Included also in the trade and other receivables figure of Kshs.586,917,820 is other exchange debtors' figure of Kshs.75,704,695 out of which an amount of Kshs.2,416,450 is in respect of a prepayment made to a South African firm in 2010/2011 and which has remained outstanding since then. Although the management has indicated that the issue is being pursued by the Kenya's Defence Attaché in South Africa, no documentary evidence has been provided to show the progress made and when the amount shall be recovered from the firm.

In addition, the other exchange debtors figure of Kshs.75,704,695 includes an amount of Kshs.9,088,067 owed by Engineers Brigade out of a total of Kshs.45,063,592 advanced to it between 2013 and 2015 to produce bottled water on behalf of the Corporation. Water supplies with an amount of Kshs.35,975,525 were made. Although the information available indicates that a Board of Officers (BOO) was constituted in August 2017 to investigate the matter, a report of this investigation was not provided for audit review.

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

2.3 Tax Recoverable

As reported in the previous years, the statement of financial position reflects tax recoverable balance of Kshs.12,859,976 as at 30 June 2018 as disclosed in note 17 to the financial statement in respect of Value Added Tax (VAT) due from Kenya Revenue Authority (KRA) which has been outstanding for the last 17 years. Although the collectability of this amount is doubtful, the Corporation has not made a provision to cover the uncertainty in recovering the claim.

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

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

Key Audit Matters

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

Other Matter

1.0 Financial Performance

During the year under review, the Corporation recorded a loss of Kshs.258,692,444 which reduced the retained earnings to Kshs.(716,612,604) from Kshs.(457,920,160) as at 30 June 2017. Although the Corporation recorded positive working capital of Kshs.1,399,028,252 as at 30 June 2018, if strategies are not put in place to reverse the loss trend, the Corporation's future operations are likely to be affected adversely by the loss making trend.

2.0 Financial Performance of Food Factory- Gilgil

Available records show that vegetables dehydration processing plant at Gilgil spent a total of Kshs.88,848,668 on salaries, purchase of raw materials and insurances services. During the same period under review, the factory made sales of Kshs.1,617,556 against operating expenses of Kshs.88,848,668 resulting to a net loss of Kshs.87,231,112 as at 30 June 2018. The management attributes the poor performance to lack of market for dry foods vegetables, droughts and poor quality of raw materials.

In the circumstances, the Corporation may not be able to meet its obligations to pay its suppliers of raw materials and pay salaries and wages leading to closure or insolvency of the factory.

3.0 Trade and Other Payables

3.1 Trade Payables

The statement of financial position reflects trade and other payables' balance of Kshs.518,637,645 which includes trade payables' figure of Kshs.277,354,628 as disclosed in note 20 to the financial statements. As reported in the previous years, the trade payables figure of Kshs.277,354,627 was in respect of prepayment made by the Ministry of Defence in respect of deposits for product purchases which have however remained unsettled or un-serviced since 2011/2012. Although the management has explained that the Corporation and the Ministry of Defence reached an agreement for the Corporation to issue a credit note for the outstanding balance, the agreement has not been availed for audit verification.

3.2 Payments Received in Advance

Trade and other payables' balance of Kshs.518,637,645 also includes payments received in advance of Kshs.140,000,000 as disclosed in note 20 to the financial statements, being cash advance from the Ministry of Defence which was to be refunded in form of ammunition or cash but has remained outstanding since 2011/2012. Although the management has explained that the delay in refund has been due to frequent breakdown in machines and that with the establishment of a new production line, the Corporation shall be in a position to service the order or refund the money, no indication has been given as to when the new production line will be established or when the refund will be made.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC MONEY

Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matter described in the Conclusion on Compliance and Effectiveness section of my report, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for conclusion

1.0 Late Submission of Financial Statements

Kenya Ordnance Factories Corporation management submitted its financial statements for the year ended 30 June 2018 to the Auditor General on 15 October, 2018, a period of 2 weeks after the end of the financial year contrary to provisions of section 164(4) of the Public Management Act 2012 which require financial statements to be submitted before or on 30 September at the end of every financial year.

Consequently, the management has contravened section 164(4) of the Public Finance Management Act, 2012.

2.0 Property, Plant and Equipment

2.1 Supply and Implementation of Enterprise Resource Planning (ERP) System

Included in the Property, Plant and Equipment figure of Kshs.3,062,990,916 as disclosed in note 11 to the financial statements is transfers(capitalized) figure of Kshs.11,743,560 from work in progress to Computers relating to installation, testing and commissioning of Enterprises Resource Planning(ERP) which was awarded to a technology firm on 8 January 2016. The duration of the project was six (6) months. The commissioning of the project was done on 23 February 2017. The contract entailed installation of 8 (eight) modules that is, the production, quality assurance, procurement security, human resource, finance maintenance and commercial department. Although the system was commissioned more than one and half years ago, most of the vital records such as assets register, cash books, bank reconciliations, general ledger, payment vouchers, debtors and creditors ledgers are done manually.

Further, the management has not availed a plan, time frame and the processes the entity uses to convert transactions such as fixed assets, debtors, creditors and stocks from manual to electronic system. It has not also showed the percentage of conversion from manual system to electronic system on various modules such as general ledger, warehouse, finance, human resource, procurement among others.

In addition, the ERP system in place does not interlink with other systems such as integrated payroll and personal Database(IPPD) and the management does not have proper back up system which can be used to restore data in case of a disaster within the entity.

Consequently, the corporation has not obtained value for money on the expenditure of Kshs.11,743,560 for the year ended 30 June 2018 since not all the modules were functional.

3.0 Other Income

3.1 Scrap metal

The statement of financial performance for the year ended 30 June 2018 reflects other income figure of Kshs.234,301,130 which include income from sale of scrap metal amounting to Kshs.28,239,880 as disclosed in note 6 of the financial statements that were sold to a single firm. It was observed that the corporation did not maintain an annual asset disposal plan as required by section 53 (4) of the Public Procurement and Assets Disposal Act, 2015 which states that all asset disposals shall be planned by the accounting officer concerned through annual asset disposal plan in a format set out in the Regulations.

Further, there was no evidence that the corporation complied with Section 90 (5) of the Public Procurement and Assets Disposal Act, 2015 which requires procuring entities that deal with classified items to agree annually with the Cabinet Secretary on the category of classified items to be included in the classified list of procurements or disposals to be applied.

In addition, there was also no evidence that the review of prices for brass scrap metal during the year was in accordance with Section 164 (3) of the same Act which state that there shall be a technical report where the appropriate relevant expert of the subject items for disposal takes into account the real market price and in so doing, the technical expert shall set up a reserve price which shall be the minimum acceptable price below real market value of the boarded items.

The management was therefore in breach of the law.

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

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

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the procedures performed, except for the matter described in the Basis for Qualified Opinion section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

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

Responsibilities of Management and Those Charged with Governance

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

In addition to the audit of the financial statements, a compliance review is planned and performed to express a conclusion with limited assurance as to whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

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

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

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

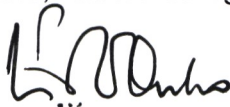
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty

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

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

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

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



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

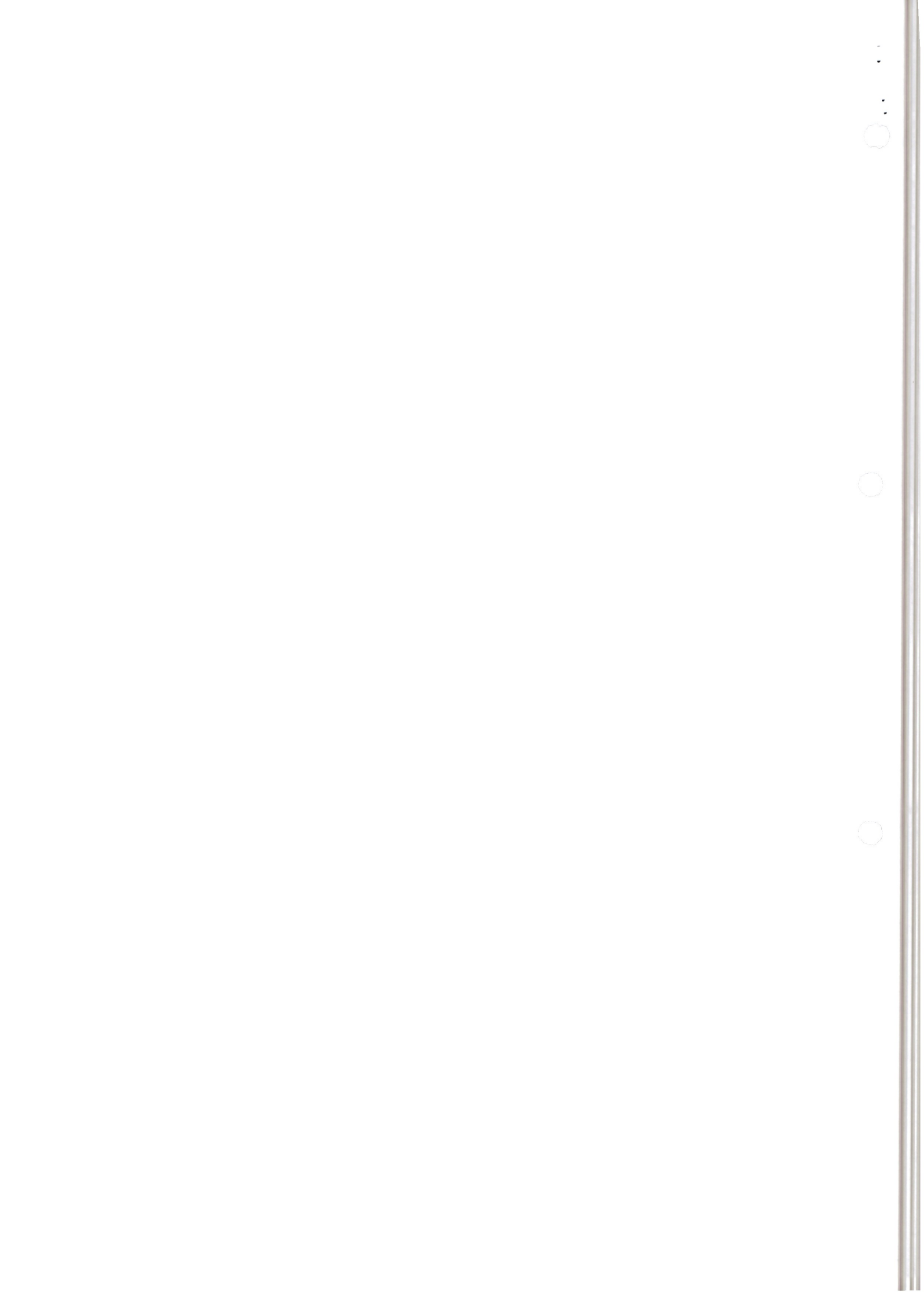
Nairobi

10 April 2019

**KENYA ORDNANCE FACTORIES CORPORATION
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

**STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30/06/2018**

		YEAR ENDED	YEAR ENDED
		2017-2018	2016-2017
	NOTE	KSHS	KSHS
SALES	3	725,760,902	725,285,941
COST OF SALES	4	<u>(1,196,551,552)</u>	<u>(882,681,106)</u>
GROSS		(470,790,650)	(157,395,164)
TRADING (LOSS)/PROFIT		(470,790,650)	(157,395,164)
FARM INCOME	5	103,200,106	143,889,250
OTHER INCOME	6	234,301,130	230,595,493
RECURRENT GRANT	7	420,342,912	354,845,911
FAIR VALUE GAIN/(LOSS) ON BIOLOGICAL ASSETS	8	66,063,443	4,516,940
ADMINISTRATIVE EXPENSES OTHER OPERATING EXPENSES(AUDIT FEES)	9	(613,479,566)	(501,266,830)
		<u>(812,000)</u>	<u>(812,000)</u>
		209,616,025	231,768,764
OPERATING (LOSS)/PROFIT		(261,174,625)	74,373,600
FINANCE (COST)/INCOME	10	<u>2,587,230</u>	<u>6,423,349</u>
PROFIT (LOSS) BEFORE TAX		(258,587,395)	79,833,447
WITHHOLDING TAX ON FIXED DEPOSITS		<u>(105,049)</u>	<u>(963,502)</u>
PROFIT/ LOSS AFTER TAX		<u>(258,692,444)</u>	<u>79,833,447</u>

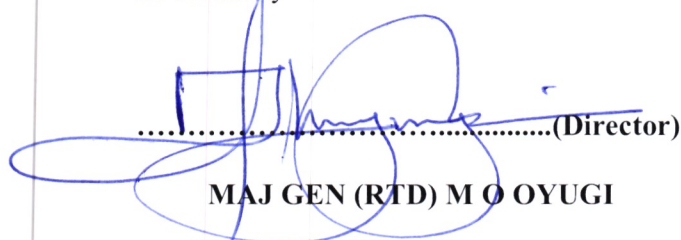


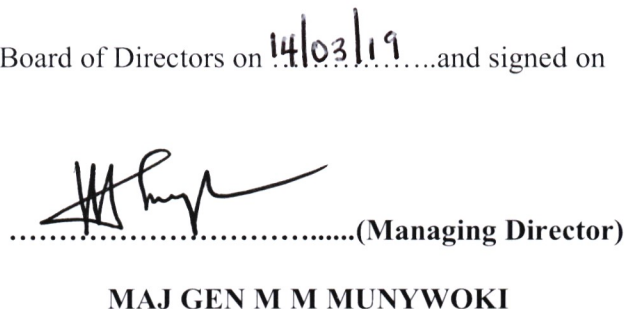
**KENYA ORDNANCE FACTORIES CORPORATION
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

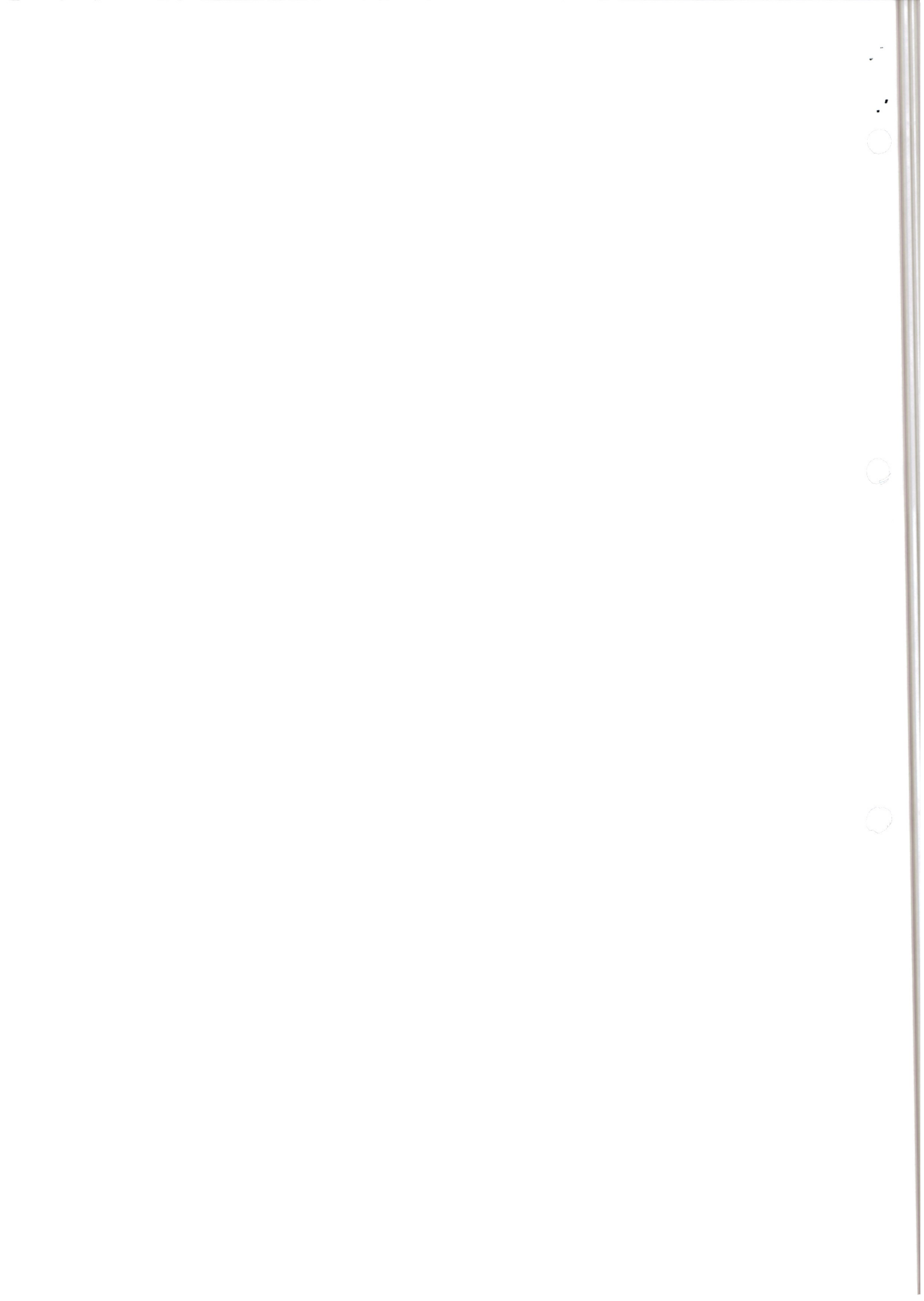
**STATEMENT OF FINANCIAL POSITION
AS AT 30/06/2018**

	NOTES	2017-2018 KSHS	2016-2017 KSHS
NON-CURRENT ASSETS			
PROPERTY PLANT AND EQUIPMENT	11	3,062,990,916	2,987,593,272
		<u>3,062,990,916</u>	<u>2,987,593,272</u>
CURRENT ASSETS			
INVENTORY	12	1,073,951,075	1,370,453,843
BIOLOGICAL STOCKS	13	208,144,200	143,677,800
CASH AND BANK BALANCES	14	35,792,826	188,504,160
SHORT TERM INVESTMENT	15	-	77,000,000
TRADE AND OTHER RECEIVABLES	16	586,917,820	437,758,057
TAX RECOVERABLE	17	12,859,976	12,859,976
		<u>1,917,665,897</u>	<u>2,230,253,836</u>
TOTAL ASSETS		<u>4,980,656,813</u>	<u>5,217,847,109</u>
EQUITY AND LIABILITIES			
EQUITY			
GOVERNMENT INVESTMENT	18	5,140,961,700	5,122,530,513
REVALUATION SURPLUS	19	37,670,072	37,670,072
REVENUE RESERVES		(716,612,604)	(457,920,160)
		<u>4,462,019,168</u>	<u>4,702,280,425</u>
CURRENT LIABILITIES			
TRADE AND OTHER PAYABLES	20	518,637,645	515,566,684
TOTAL EQUITY AND LIABILITIES		<u>4,980,656,813</u>	<u>5,217,847,108</u>

The Financial Statements were approved by the Board of Directors on 14/03/19 and signed on its behalf by


.....(Director)
MAJ GEN (RTD) M O OYUGI

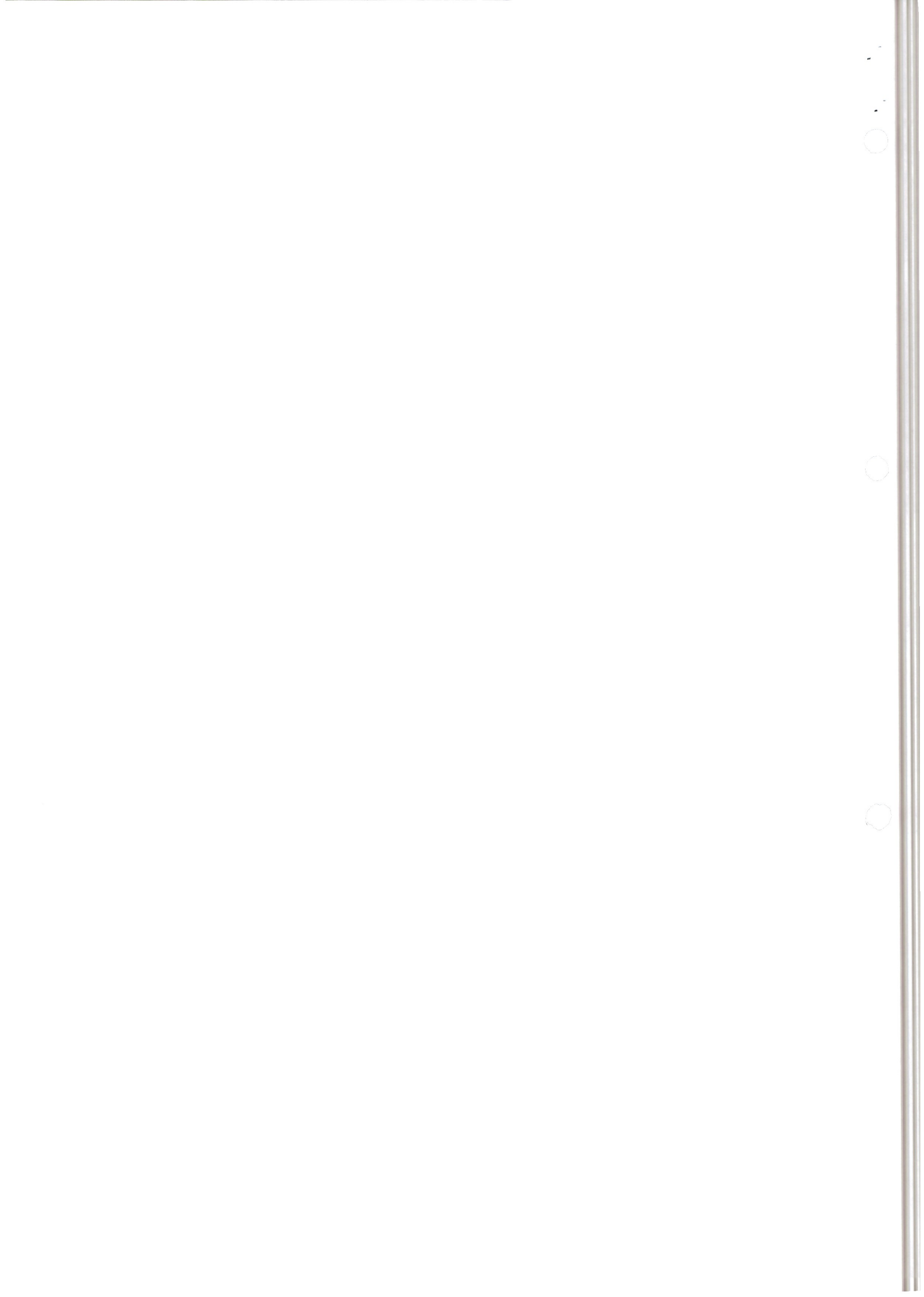

.....(Managing Director)
MAJ GEN M M MUNYWOKI



**KENYA ORDNANCE FACTORIES CORPORATION
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

**STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30/06/2018**

	GOVERNMENT INVESTMENTS	REVALUATION SURPLUS	REVENUE RESERVE	TOTAL
	KSHS	KSHS	KSHS	KSHS
BALANCE AS AT 1st JULY 2016	5,122,530,513	37,670,072	(537,753,607)	4,622,446,978
Net (Loss)/Profit for the Year	-	-	79,833,447	79,833,447
BALANCE AS AT 30th JUNE 2017	5,122,530,513	37,670,072	(457,920,160)	4,702,280,425
BALANCE AS AT 1st JULY 2017	5,122,530,513	37,670,072	(457,920,160)	4,702,280,425
Net (Loss)/Profit for the Year	-	-	(258,692,444)	(258,692,444)
Conditional Grant FY 2016/17	18,431,187	-	-	18,431,187
BALANCE AS AT 30th JUNE 2018	5,140,961,700	37,670,072	(716,612,604)	4,462,019,168



**KENYA ORDNANCE FACTORIES CORPORATION
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30/06/2018**

		YEAR ENDED 2017-2018	YEAR ENDED 2016-2017
	NOTE	KSHS	KSHS
OPERATING ACTIVITIES			
(LOSS)/PROFIT BEFORE TAX		(258,587,395)	79,833,447
ADJUSTMENTS FOR:			
INTEREST INCOME	10	(2,587,230)	(6,423,349)
DEPRECIATION	21	137,303,866	104,526,711
INCREASE/DECREASE IN FAIR VALUE OF BIOLOGICAL ASSETS		(64,466,400)	(4,516,940)
CHANGES IN WORKING CAPITAL:			
(INCREASE)/DECREASE IN INVENTORY		296,502,768	(175,189,191)
(INCREASE)/DECREASE IN DEBTORS AND PREPAYMENTS		(149,159,763)	(51,709,132)
INCREASE/(DECREASE) IN CREDITORS AND ACCRUALS		(3,070,961)	54,804,356
CASH GENERATED FROM OPERATIONS		(37,923,193)	1,325,900
TAX PAID - WITHHOLDING TAX ON DEPOSITS)		(105,049)	(881,544)
NET CASH (USED) GENERATED FROM OPERATING ACTIVITIES		(38,028,242)	444,356
INVESTING ACTIVITIES			
PURCHASE OF FIXED ASSETS	22	(212,701,509)	(32,510,519)
INTEREST RECEIVED	10	2,587,230	5,876,965
NET CASH USED FOR INVESTING ACTIVITIES		(210,114,279)	(26,633,554)
FINANCING ACTIVITIES			
GOVERNMENT INVESTMENT		18,431,187	-
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(229,711,334)	26,189,198
MOVEMENT IN CASH AND CASH EQUIVALENTS			
CASH AND CASH EQUIVALENT AT THE BEGINNING OF THE YEAR		265,504,160	291,693,358
INCREASE/(DECREASE) DURING THE YEAR		(229,711,334)	(26,189,198)
CASH AND CASH EQUIVALENT AS AT 30 TH JUNE 2018	14	35,792,826	265,504,160

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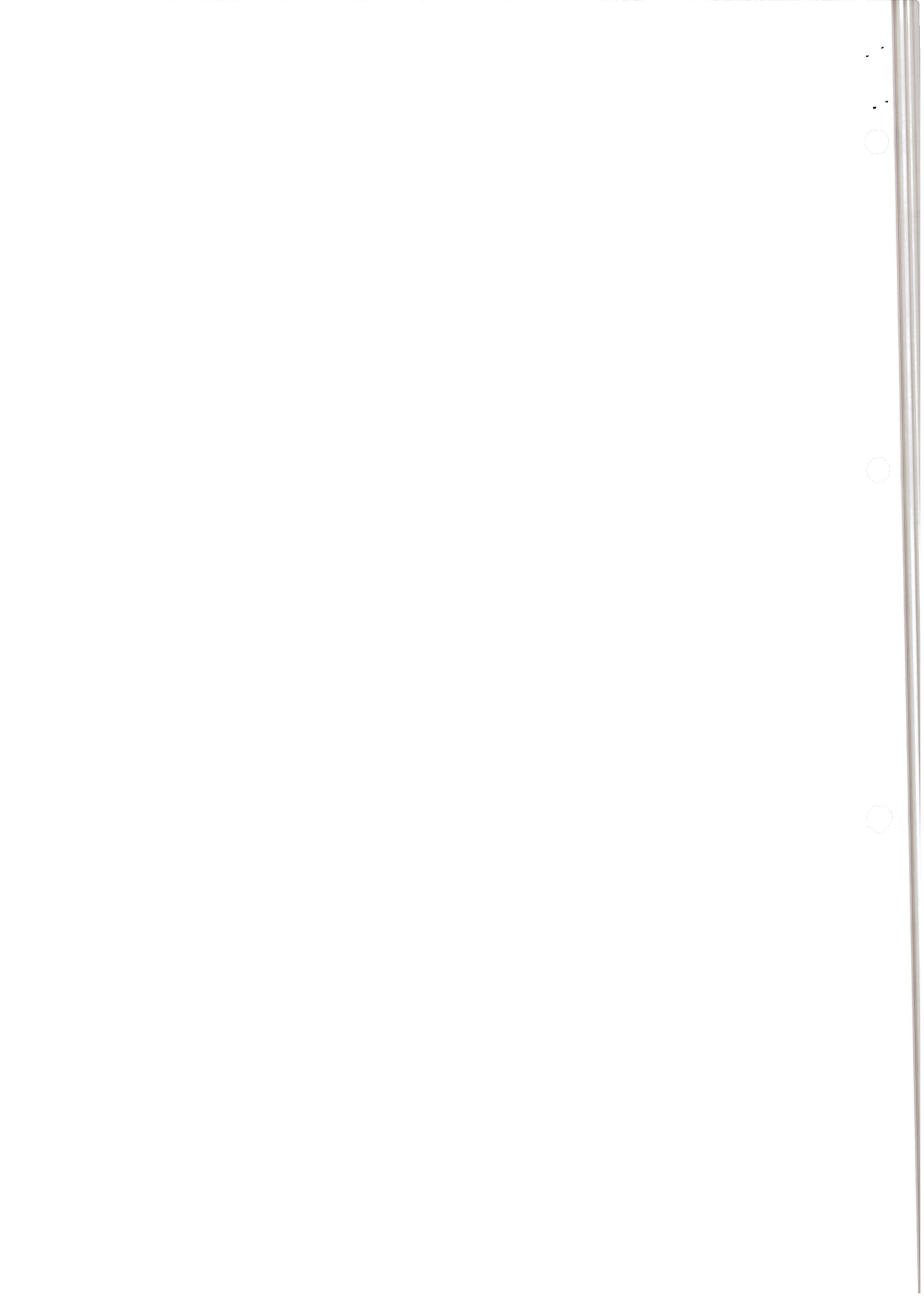
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**KENYA ORDNANCE FACTORIES CORPORATION
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE PERIOD ENDED 30 JUNE 2018**

Revenue	Original Budget Kshs	Adjustments Kshs	Final Budget Kshs	Actual Comparable Basis Kshs	Performance Difference Kshs	Remarks
Ammo Sales	952,448,330	-	952,413,698	724,413,698	(228,000,000)	Machine Breakdown resulting to low production
Ammo Scrap	-	30,000,000	30,000,000	28,239,880	1,760,120	
Disposal	512,500	-	512,500	706,928	(194,428)	
General Engineering Sales	3,652,500	-	3,625,500	640,276	2,985,224	
Piped Water Sales	3,075,000	-	3,075,000	2,379,541	695,459	
Farm Sales	68,000,000	-	68,000,000	17,706,152	50,293,848	
Maize Milling	60,780,000	-	60,780,000	85,493,954	(24,713,954)	Increased consumption due to recruits double intake
Field Kitchen Fabrication	42,039,000	-	42,039,900	19,661,724	22,378,176	
Interest Income	9,000,000	-	9,000,000	2,587,230	6,412,770	
Bakery Sales	81,000,000	-	81,000,000	130,336,506	(49,336,506)	Increased consumption due to recruits double intake
Water Bottling Sales	42,000,000	-	42,000,000	51,165,050	(9,165,050)	Increased demand from DEFECO
Weapon Repair	-	-	-	-	-	
KDF Food Dehydration Factory	-	14,698,730	14,698,730	1,617,556	13,081,174	
KOFC Grant	135,000,000	77,300,000	212,300,000	212,300,000	-	
Total Income	1,397,507,330	121,998,730	1,519,445,328	1,277,248,495	242,196,833	



**KENYA ORDNANCE FACTORIES CORPORATION
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Expenditure	Original Budget Kshs	Adjustments Kshs	Final Budget Kshs	Actual Comparable Basis Kshs	Performance Difference Kshs	Remarks
Materials for Ammo Production	559,729,590	(30,000,000)	529,729,590	403,703,890	126,025,700	
Carbide Tools and Non Carbide Tools	17,077,392	4,000,000	21,077,392	30,996,453	(9,919,061)	
Auxiliary Parts for Tools Prod	15,277,384	3,000,000	18,277,384	18,338,338	(60,954)	
Materials for Tools Production	7,117,748	(7,000,000)	117,748	-	117,748	
Consumables/ Lab Chemicals	8,806,727	30,000,000	38,806,727	20,223,517	18,583,210	
Water Treatment Expenses	3,700,000	-	-	5,198,604	(5,198,604)	
Machine Spares	27,792,129	-	27,792,129	26,249,369	1,542,760	
Electricity Expenses	35,000,000	-	35,000,000	31,821,120	3,178,880	
Salaries and Allowances	225,589,335	-	225,589,335	221,282,853	4,306,482	
Motor Vehicle Operating Expenses	28,499,490	-	28,499,490	30,121,709	(1,622,219)	
Directors Allowances	5,000,000	-	5,000,000	877,038	4,122,962	Two Board meetings held during the FY
Travelling & Accommodation	14,000,000	-	14,000,000	19,077,562	(5,077,562)	Implementation of SRC recommended Rates
Official Entertainment	2,600,000	-	2,600,000	1,219,973	1,380,027	
Postal Expenses	900,000	-	900,000	1,082,024	(182,024)	

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**KENYA ORDNNANCE FACTORIES CORPORATION
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Expenditure	Original Budget Kshs	Adjustments Kshs	Final Budget Kshs	Actual Comparable Basis Kshs	Performance Difference Kshs	Remarks
Water and Conservancy	900,000	-	900,000	392,026	507,974	
Purchase of Drugs & Dressings	100,000	-	100,000	21,274	78,726	
Purchase of Protective Gear	2,000,000	-	2,000,000	643,555	1,356,445	
Purchase of Stationery	2,500,000	-	2,500,000	1,968,449	531,551	
Manuals & Technical Journals	504,000	-	504,000	486,820	17,180	
Maintenance of Buildings	19,305,000	-	19,305,000	14,448,376	4,856,624	
Payment of Rent	2,376,000	-	2,376,000	2,614,000	(238,000)	
Purchase of General Stores	3,500,000	1,500,000	5,000,000	4,435,803	564,197	
Insurance Expenses	28,741,636	-	28,741,636	21,371,790	7,369,846	
Clearing, Transport & Freight	35,000,000	-	35,000,000	17,487,711	17,512,289	
ISO 9001:2008 Certification Expenses	1,000,000	-	1,000,000	833,576	166,424	
Bank Charges & Commission	5,000,000	-	5,000,000	3,322,969	1,677,031	
Maintenance of Roads	3,500,000	-	3,500,000	14,448,376	(10,948,376)	
Computer Expenses	7,459,010	-	7,459,010	4,666,747	2,792,263	

**KENYA ORDINANCE FACTORIES CORPORATION
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Expenditure	Original Budget Kshs	Adjustments Kshs	Final Budget Kshs	Actual Comparable Basis Kshs	Performance Difference Kshs	Remarks
Audit Expenses	1,142,000	-	812,000		812,000	
Farm Expenses	46,392,976	-	46,392,976	47,293,408	(900,432)	Chemicals for Army Worms
Mobile Field Kitchen Fabrication Expenses	23,835,476	-	23,835,476	3,932,087	19,903,389	
Water Bottling Consumables	27,888,622	-	27,888,622	24,341,158	3,547,464	
Bakery Consumables	62,766,200	42,000,000	104,766,000	82,702,618	22,063,382	Increased production due to recruits demand
Quality Assurance Laboratory Reagents	3,740,900	4,000,000	7,740,900	6,350,596	1,390,304	
Milling Plant Consumables	42,414,680	15,741,128	58,155,808	59,594,905	(1,439,097)	Increased cost of Maize
Training and Research Expenses	3,023,450	2,000,000	5,023,450	5,598,207	(574,757)	
Sales and marketing	4,705,000	(2,000,000)	2,705,000	750,362	1,954,638	
Purchase of Motor Vehicles	20,000,000	14,765,329	34,765,329	35,870,080	(1,104,751)	
Purchase of Domestic and Household Equipment	2,000,000	1,500,000	3,500,000	2,691,505	808,495	
Purchase of Office Equipment	3,321,010	(1,500,000)	3,321,010	1,486,469	1,834,541	
Purchase of Security Equipment	47,000,000	-	47,000,000	17,881,694	29,118,306	Project Ongoing. Phase's implementation.
Communication Equipment	500,000	-	500,000	237,450	262,550	



**KENYA ORDNANCE FACTORIES CORPORATION
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Expenditure	Original Budget	Adjustments		Final Budget	Actual Comparable Basis	Performance Difference	Remarks
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	
Replacement of Water line Equipment	2,626,705	-		2,626,705	1,816,184	810,521	
Milling Plant Equipment	16,500,000	40,149,000		56,649,000	54,924,109	1,724,891	
New Bakery and Additional Equipment	10,928,440	30,000,000		40,928,440		40,928,440	
Field Kitchen Fabrication Equipment	-	41,315,182		41,315,182	18,431,187	22,883,995	Contracts ongoing
Water Bottling Plant	5,230,000	5,500,000		10,730,000	9,378,000	1,352,000	
Ballistic Analyser	42,000,000	(42,000,000)		-	-	-	
Machine Overhaul	25,000,000	-		25,000,000	12,223,200	12,776,800	Contract ongoing
Purchase of Forklift	5,500,000	(5,500,000)		-	-	-	
Farm Machinery/Implements	11,200,000	20,000,000		35,965,329	24,322,678	11,642,651	
Ammo Production Test Weapons	6,000,000	-		-	-	-	
Depreciation	-	-		-	137,303,866	(137,303,866)	
Weigh Bridge	7,000,000	1,500,000		5,500,000	-	5,500,000	
33KVA Switch Gear	15,741,128	(15,741,128)		-	-	-	
KDF Food Processing Factory	-	77,300,000		77,300,000	88,448,668	(11,148,668)	
Total Expenditure	1,502,457,028	221,529,511		1,726,221,668	1,535,940,939	190,280,729	
Surplus (Deficit)	(104,949,698)			(204,541,211)	(258,692,444)	51,916,104	

**KENYA ORDNANCE FACTORIES CORPORATION
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Notes to the Financial Statements:

1. General Information

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

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

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

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

Summary of Significant Accounting Policies

a. Revenue Recognition

i) Revenue from non-exchange transactions – IPSAS 23

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

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

ii) Revenue from Exchange Transactions – IPSAS 9

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



**KENYA ORDNANCE FACTORIES CORPORATION
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FOR THE YEAR ENDED JUNE 30, 2018**

Notes to the Financial Statements Continued:

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

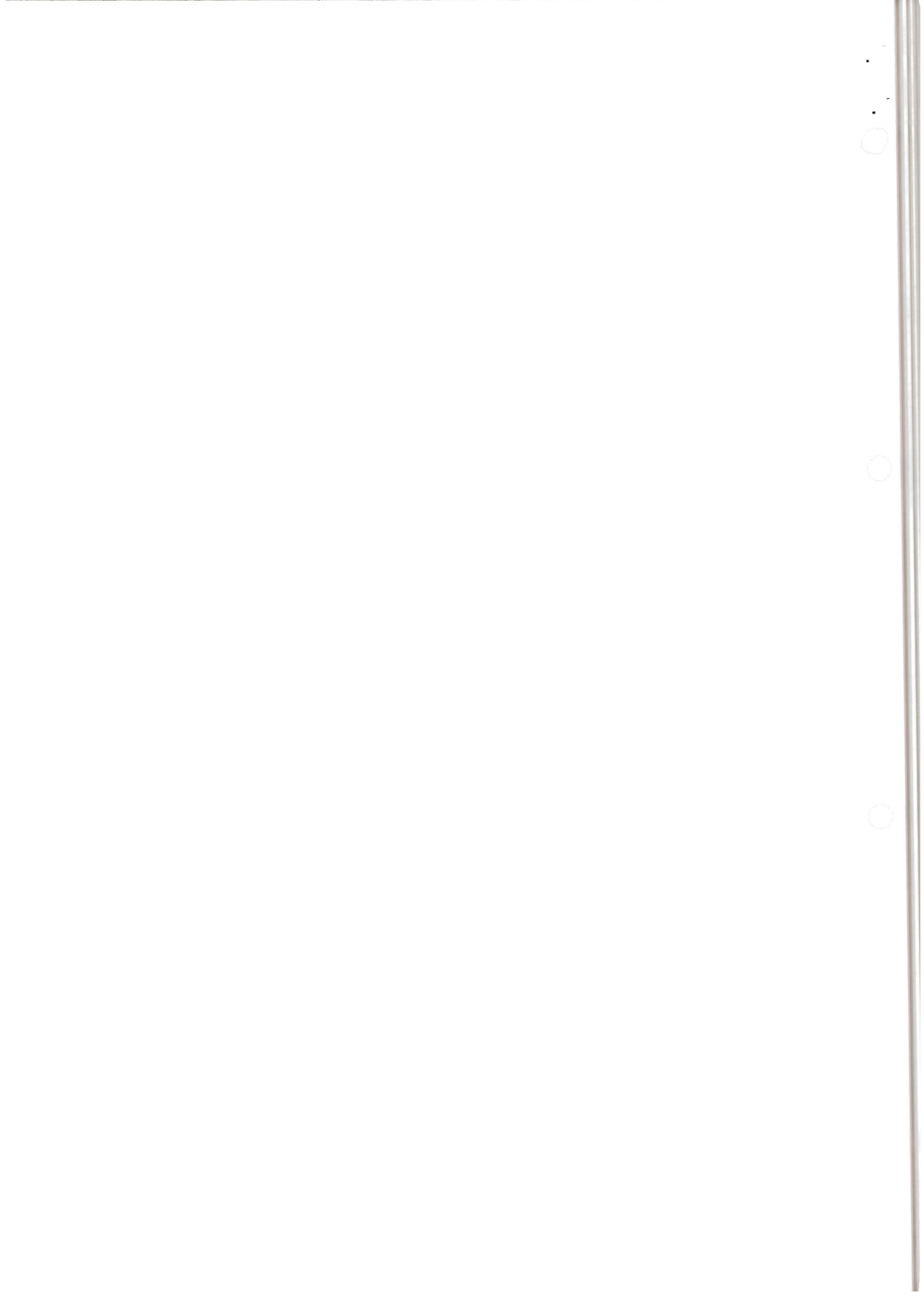
Current income tax: Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting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



**KENYA ORDNANCE FACTORIES CORPORATION
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Notes to the Financial Statements Continued:

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.

**KENYA ORDNANCE FACTORIES CORPORATION
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Notes to the Financial Statements Continued:

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition. Transfers are made to or from investment property only when there is a change in use.

e) Property, plant and equipment – IPSAS 17

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

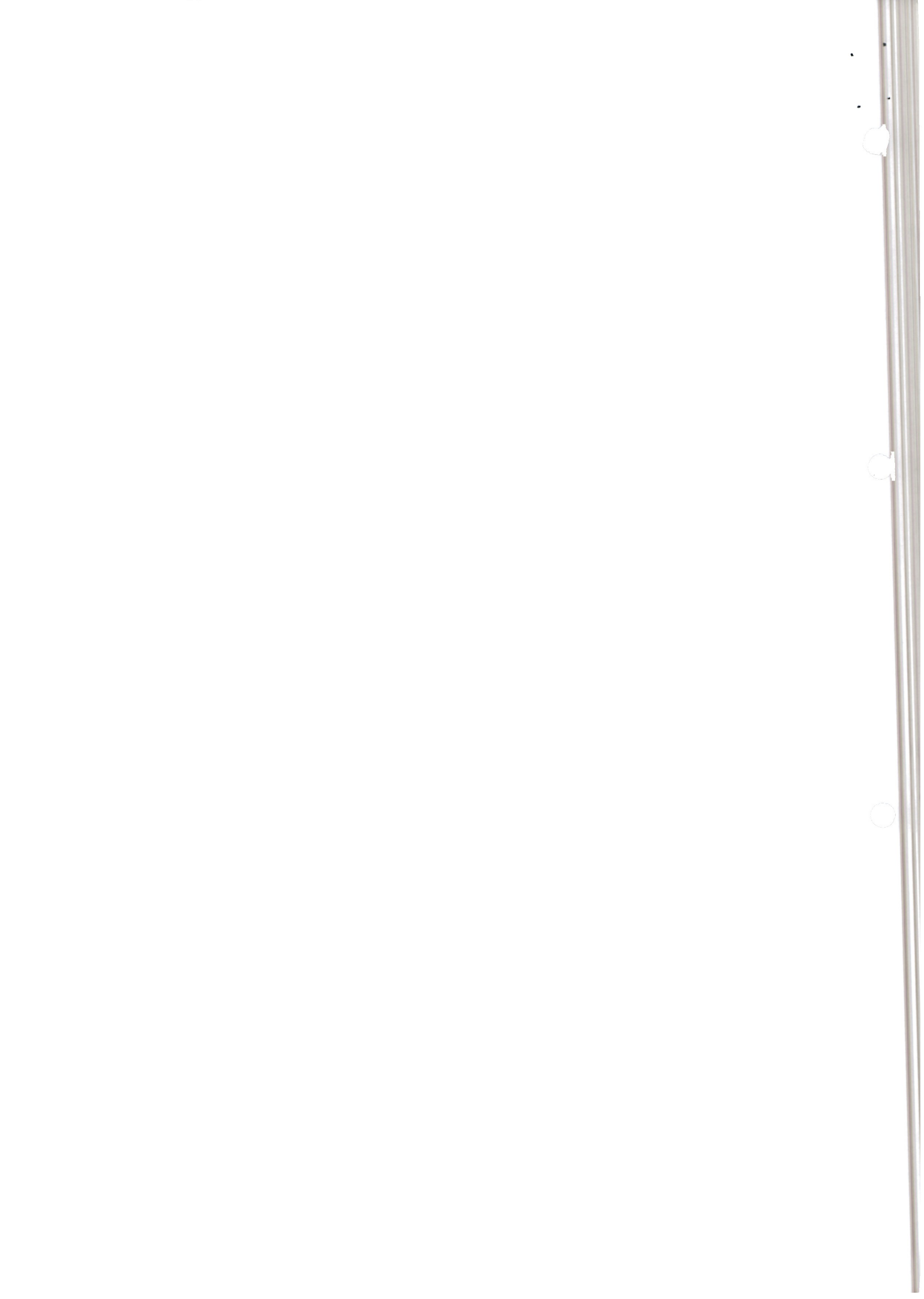
Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated 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



**KENYA ORDNANCE FACTORIES CORPORATION
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Notes to the Financial Statements Continued:

How the asset will generate future economic benefits or service potential

The availability of resources to complete the asset

The ability to measure reliably the expenditure during development

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

h) Biological Assets

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

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

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

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

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

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

Bearer Biological Assets: Other Biological assets are classified as bearer biological assets.

Gains or losses arising on initial recognition of biological assets and agricultural produce and from changes in fair value less point of sale costs are recognized in the income statement for the year.

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.

**KENYA ORDNANCE FACTORIES CORPORATION
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Notes to the Financial Statements Continued:

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.

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**KENYA ORDNANCE FACTORIES CORPORATION
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Notes to the Financial Statements Continued:

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



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Notes to the Financial Statements Continued:

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.

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**KENYA ORDNANCE FACTORIES CORPORATION
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Notes to the Financial Statements Continued:

q) Related parties – IPSAS 20

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

r) Service Concession Arrangements – IPSAS 32

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

s) Cash and Cash Equivalents

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

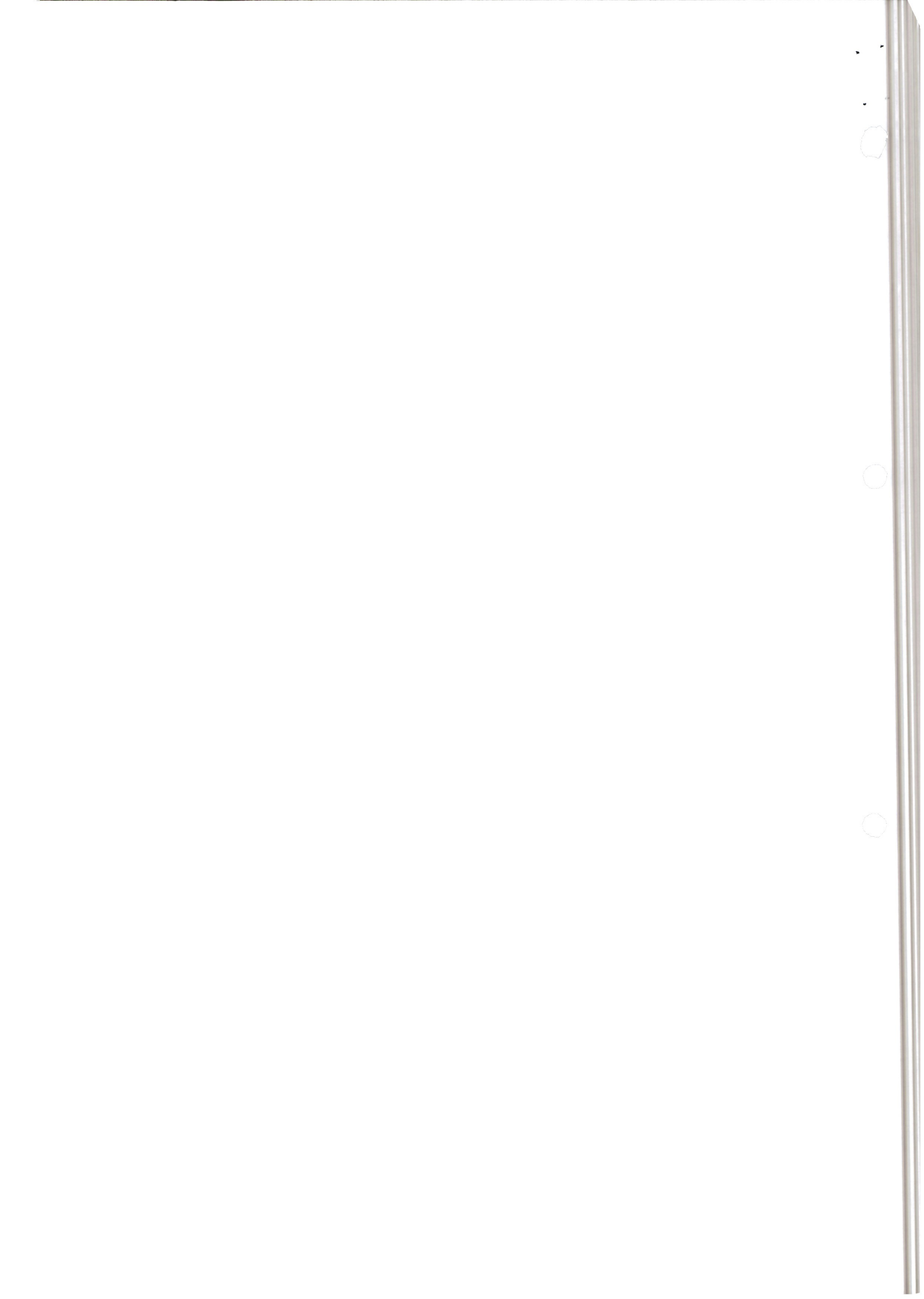
t) Comparative figures

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

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.



**KENYA ORDNANCE FACTORIES CORPORATION
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Notes to the Financial Statements Continued:

The Corporation based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Corporation. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

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

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

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

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

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, 2018.

**KENYA ORDNANCE FACTORIES CORPORATION
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Notes to the Financial Statements Continued:

3. Sales

	2018	2017
	Kshs	Kshs
Ammunition Sales	724,413,698	722,915,388
Fabrication and Auxiliary repairs	<u>1,347,204</u>	<u>2,370,553</u>
	725,760,902	725,285,941

4. Cost of Sales

	2018	2017
	Kshs	Kshs
Opening Stocks of finished goods	150,764,728	148,246,522
Production cost of finished goods	1,133,755,948	885,199,312
Closing stock of finished goods	<u>(87,969,124)</u>	<u>(150,764,728)</u>
Cost of Sales	1,196,551,552	882,681,106

5. Farm Income

	2018	2017
	Kshs	Kshs
Shelled Maize/Boma Rhodes/Chenga	17,706,152	84,614,021
Maize Flour/Bran	<u>85,493,954</u>	<u>59,275,229</u>
	103,200,106	143,889,250

6. Other Income

	2018	2017
	Kshs	Kshs
Piped Water	2,379,542	2,692,620
DEFKITCH 2012- Field Kitchen	19,661,724	39,579,107
Bottled Water	51,165,050	43,760,697
Scrap Metal	28,239,880	37,892,242
Bakery Products	130,336,506	104,567,350
KDF FPF(Dehydreaded Vegetable)Sales	1,617,556	-
Refunds	<u>900,872</u>	<u>2,103,477</u>
Total Other Income	234,301,130	230,595,493

7. Grant

	2018	2017
	Kshs	Kshs
Operational Recurrent Grant	212,300,000	174,161,494
Other Grant Salaries	<u>208,042,912</u>	178,684,417
Total	420,342,912	354,845,911
Capitation (Conditional) Grant	<u>18,431,187</u>	

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

	2018	2017
	Kshs	Kshs
Fair value at the beginning of the year	143,677,800	142,177,800
Decrease in Fair value due to harvesting	(48,906,817)	(51,923,757)
Additional at Cost	47,293,408	48,906,817
Fair Value gain arising from physical changes	<u>66,063,443</u>	<u>4,516,940</u>
Fair Value at the end of the year	208,144,200	143,677,800

Notes to the Financial Statements Continued:

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

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

9. Administrative Expenses

Motor vehicle running expenses	30,121,709	26,244,580
Travelling and accommodation	19,077,562	13,097,331
Administration salaries and allowances	128,797,730	111,338,404
Telephone and postage	4,110,610	2,818,691
Computer expenses	4,666,247	1,019,450
Official Entertainment	1,219,973	1,380,393
Directors Fees	877,038	481,075
Legal and Consultancy	5,576,520	10,093,089
Weapon Repair Expenses	2,876,726	23,408,753
Uniforms	643,555	1,882,391
Printing and Stationery	1,968,450	1,991,224
Rents	2,614,000	1,725,600
General stores and Replacement of Pumps	6,251,987	9,611,739
Training	4,390,630	353,777
Research & Development	1,207,577	3,344,749
Bank charges	3,322,969	4,240,696
Medical expenses	21,274	5,055
Electricity	6,364,224	8,890,275
Advertising	750,362	1,563,454
Newspapers and periodicals	486,820	595,258
Domestic and Household Expenses	2,691,505	3,513,087
Insurance	4,274,358	4,389,952
Building and Roads Maintenance	14,448,376	18,950,073
Clearing and Transportation Expense	17,487,711	40,505,056



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ISO Certification	833,576	298,340
Water and Conservancy	392,026	1,016,742
Security Expenses	3,640,295	14,756,928
Communication Expenses	237,450	17,999
Field Kitchen Fabrication	3,932,087	3,747,229
Farm Expenses	47,293,408	48,890,451
Bakery Consumables	82,702,618	85,273,631
Water Bottling Consumables	24,341,158	9,376,778
Milling Plant Consumables	59,594,905	38,273,783
Machine Overhaul/Upgrade	12,223,200	-
KDF FPF Expenses	88,848,668	-
Audit Fees		
Depreciation:		
Motor vehicles	6,268,912	2,935,684
Buildings and civil works	953,474	1,727,313
Furniture and fittings	492,242	235,892
Waterline and civil works	6,020,661	953,474
Computers	11,456,971	2,318,432
TOTAL EXPENDITURE	613,479,566	502,078,830

10. Finance Income – External Investments

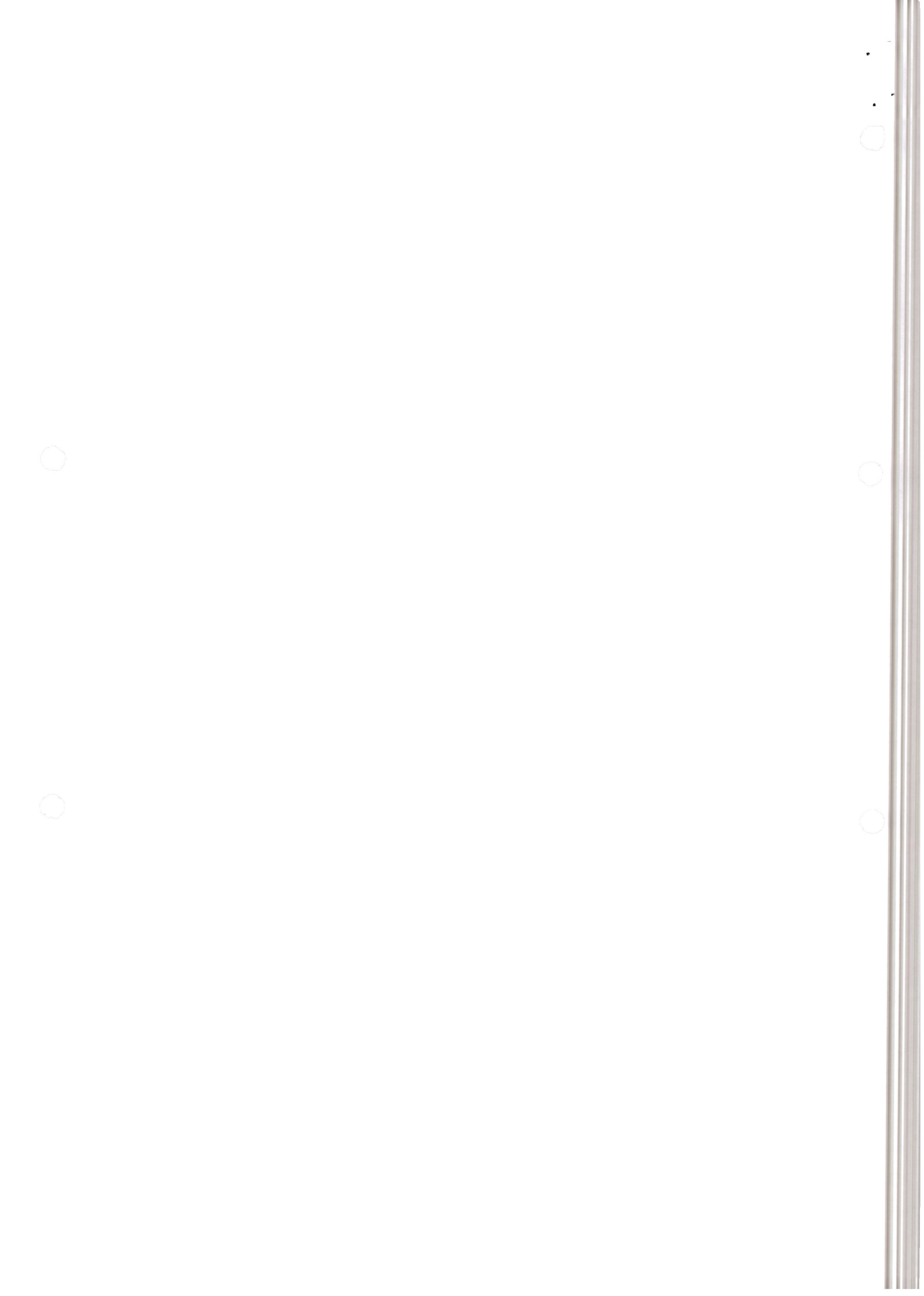
	2018	2017
	Kshs	Kshs
Fixed Deposits Interest	<u>2,587,230</u>	<u>6,423,349</u>
<u>Total Finance Income</u>	2,587,230	6,423,349



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Notes to the Financial Statements Continued:
11. Property Plant and Equipment

AS AT 30/06/2018	BUILDING AND CIVIL WORKS	WATERLINE AND CIVIL WORKS	WORK IN PROGRESS	PLANT EQUIPMENT, MACHINERY	MOTOR VEHICLES	FURNITURE AND FITTINGS	COMPUTERS	TOTAL
COST	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS
1st JULY 2017	863,656,515	476,737,242	142,097,653	2,917,858,453	93,945,409	23,589,181	31,877,269	4,549,761,722
CAPITALIZED	-	-	(11,743,560)	-	-	-	11,743,560	-
ADDITIONS	16,674,126	-	60,595,430	92,471,995	35,870,080	1,486,469	5,603,410	212,701,509
30th JUNE 2018	880,330,641	476,737,242	190,949,523	3,010,330,448	129,815,489	25,075,650	549,224,239	4,762,463,231
DEPRECIATION								
ACCUMULATED AS AT 01 JULY 2017	157,650,497	87,827,642	-	1,184,697,765	89,757,572	14,976,997	27,257,976	1,562,168,449
CHARGE FOR THE YEAR	8,803,306	4,767,372	-	75,258,261	32,453,872	1,253,782	14,767,272	137,303,866
ACCUMULATED AS AT 30 JUNE 2018	166,453,803	92,595,014	-	1,259,956,026	122,211,444	16,230,779	42,025,248	16,99472,315
NET BOOK VALUE 30 JUNE 2018	713,876,838	384,142,228	190,949,523	1,750,374,422	7,604,045	8,844,870	7,198,991	3,062,990,916
NET BOOK VALUE 30 JUNE 2017	706,006,018	388,909,600	142,097,653	1,733,160,688	4,187,837	8,612,184	4,619,293	2,987,593,272



KENYA ORDNANCE FACTORIES CORPORATION
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FOR THE YEAR ENDED JUNE 30, 2018

AS AT 30/06/2017	BUILDING AND CIVIL WORKS	WATERLINE AND CIVIL WORKS	WORK IN PROGRESS	PLANT EQUIPMENT, MACHINERY	MOTOR VEHICLES	FURNITURE AND FITTINGS	COMPUTERS	TOTAL
COST	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS
1st JULY 2016	863,656,515	476,737,242	128,113,187	2,906,973,814	93,945,409	21,030,467	26,794,569	4,517,251,203
CAPITALIZED ADDITIONS	-	-	-	-	-	-	-	-
	-	-	13,984,466	10,884,639	-	2,558,714	5,082,700	32,510,519
30th JUNE 2017	863,656,515	476,737,242	142,097,653	2,917,858,453	93,945,409	23,589,181	31,877,269	4,549,761,722
DEPRECIATION								
ACCUMULATED AS AT 01 JULY 2016	149,013,932	83,060,270	-	1,111,751,304	75,079,151	13,797,538	24,939,544	1,457,641,741
CHARGE FOR THE YEAR	8,636,565	4,767,372	-	72,946,461	14,678,421	1,179,459	2,318,432	104,526,711
ACCUMULATED AS AT 30 JUNE 2017	157,650,497	87,827,642	-	1,184,697,765	89,757,572	14,976,997	27,257,976	1,562,168,450
NET BOOK VALUE 30 JUNE 2017	706,006,018	388,909,600	142,097,653	1,733,160,688	4,187,837	8,612,184	4,619,293	2,987,593,272
NET BOOK VALUE 30 JUNE 2016	714,642,583	393,676,972	128,113,187	1,795,222,510	18,866,258	7,232,929	1,855,025	3,059,609,462



**KENYA ORDNANCE FACTORIES CORPORATION
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Notes to the Financial Statements Continued:

12. Inventories

	2018	2017
	Kshs	Kshs
Raw materials	876,377,040	1,007,410,650
Chemicals Oils and Lubricants	23,695,250	81,607,545
Other Raw Materials, Field Kitchen and Tools/Dies	3,237,652	42,341,668
Field Kitchen plus Cooking Pots	-	19,697,749
Work in Progress	45,535,167	38,707,103
Finished goods	102,557,516	150,764,728
Shelled Maize Stock	22,548,450	28,874,400
Production Scrap Metal	-	<u>1,050,000</u>
Total inventories at the lower of cost & Realizable value	1,073,951,075	1,370,453,843

13. Biological Asset

	2018	2017
	Kshs	Kshs
Maize	52,200,000	52,200,000
Assorted Trees	148,144,200	83,677,800
Wheat	1,800,000	1,800,000
Pasture	<u>6,000,000</u>	<u>6,000,000</u>
	208,144,200	143,677,800

14. Cash and Cash Equivalents

	2018	2017
	Kshs	Kshs
Kenya Commercial Bank	29,140,301.25	138,185,906.60
Kenya Commercial Bank (Dollar A/c)	392,406.46	7,878,720.55
Co-operative Bank of Kenya (Main)	3,902,614.31	14,793,572.60
Co-operative Bank of Kenya (Bakery Eld)	1,646,409.35	17,069,294.40
Co-operative Bank of Kenya (Bakery Gilgil)	153,559.40	1,757,876.51
Equity Bank	520,415.23	3,626,395.70
National Bank of Kenya	18,678.57	3,006,309.05
Cash on Hand	<u>18,441.63</u>	<u>2,186,084.70</u>
Total cash and Cash Equivalents	35,792,826.20	188,504,160.11

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**KENYA ORDNANCE FACTORIES CORPORATION
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Notes to the Financial Statements Continued:

15. Short Term Deposit

	2018	2017
	Kshs	Kshs
Kenya Commercial Bank	-	<u>77,000,000</u>
	-	77,000,000

16. Trade and other Receivables

	2018	2017
	Kshs	Kshs
Current Receivables		
Ammunition and Service Debtors	397,651,802	172,036,798
Other Exchange Debtors	75,704,695	154,704,695
Claimable Value Added Tax	111,957,288	109,476,090
Staff Debtors	<u>1,604,035</u>	<u>1,540,475</u>
	586,917,820	437,758,058

17. Tax Recoverable

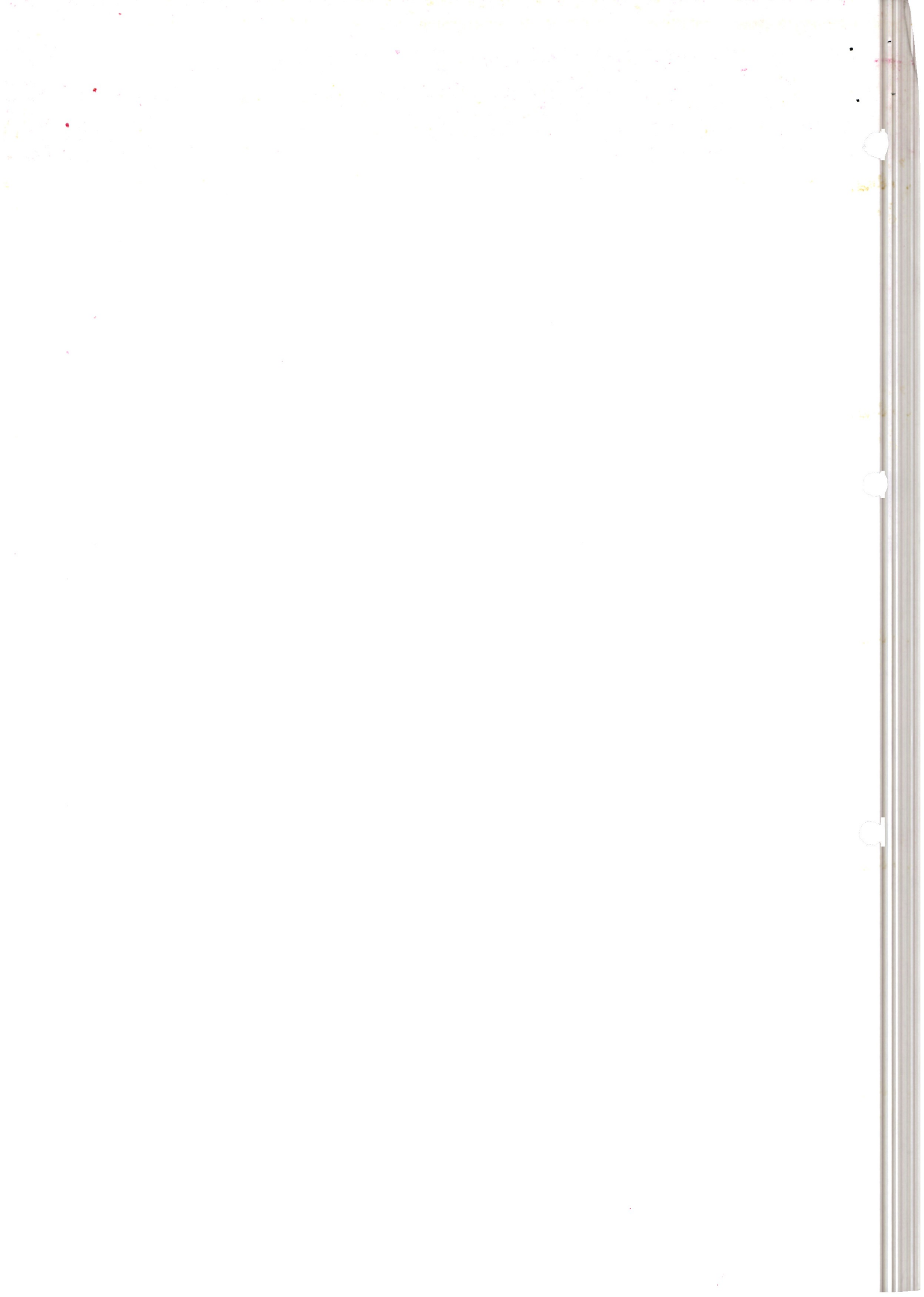
	2018	2017
	Kshs	Kshs
Tax Recoverable from KRA	12,859,976	12,859,976

18. Government Investment: The Government investment of Ksh 5,140,961,700 is the initial investment in form of annual grants made by the Government of Kenya as per the figure provided by the National Treasury while establishing the Factory in respect to Buildings, Plant and Equipment, Civil Works, Motor Vehicles, Waterline, Power Installation and other Capital Investments.

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

20. Trade and Other Payables from Exchange Transactions

	2018	2017
	Kshs	Kshs
Trade payables	277,354,628	277,354,628
Payments received in advance	140,000,000	140,000,000
Other payables	79,714,204	55,835,196
Contract Retention	-	2,376,860
Deffered Income (Grant)	<u>21,568,813</u>	<u>40,000,000</u>
Total trade and other payables	518,637,645	515,566,684



**KENYA ORDNANCE FACTORIES CORPORATION
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Notes to the Financial Statements Continued:

21. Depreciation and Amortization	2018 Kshs	2017 Kshs
Building and Civil Works	8,803,306.41	8,636,565.15
Waterline and Civil Works	4,767,372.42	4,767,372.42
Plant, Equipment and Machinery	75,258,261.19	72,674,345.35
Motor Vehicles	32,453,872.00	14,678,421.00
Furniture and Fittings	1,253,782.48	1,179,459.05
Computers	<u>14,767,272.00</u>	<u>2,318,431.60</u>
Total depreciation and amortization	137,303,866.50	104,526,711.00

22. Purchase of Fixed Assets	2018 Kshs	2017 Kshs
Buildings and Civil Works	16,674,126	-
Work in progress	60,595,430	13,984,466
Plant Equipment & Machinery	92,471,995	10,884,639
Motor Vehicles	35,870,080	-
Furniture and Fittings	1,486,469	2,558,714
Computers	5,603,410	<u>5,082,700</u>
Total Purchase of Fixed Assets	212,701,510	32,510,519

23. Bulk Purchase of electricity	2018 Kshs	2017 Kshs
Electricity	<u>29,025,599</u>	<u>44,451,374</u>
Total bulk purchase	29,025,599	44,451,374

24. Related party Transactions

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

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

Sales to related parties:

	2018 Kshs	2017 Kshs
Ammo Sales	724,413,698	725,285,941

	2018 Kshs	2017 Kshs
Financial Grant	212,300,000	175,661,494

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**KENYA ORDNANCE FACTORIES CORPORATION
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Notes to the Financial Statements Continued:

Employee Cost

	2018	2017
	Kshs	Kshs
KOFC personal Salaries and Allowances	221,283,000	192,443,603
Seconded Personnel Salaries and Allowances	<u>208,042,913</u>	<u>178,684,412</u>
Total Employee cost	429,325,767	371,128,015

Directors Allowances

	2018	2017
	Kshs	Kshs
Directors Allowances	<u>877,038</u>	<u>481,075</u>
Total Directors Allowances	877,038	481,075

25. Contracted Services

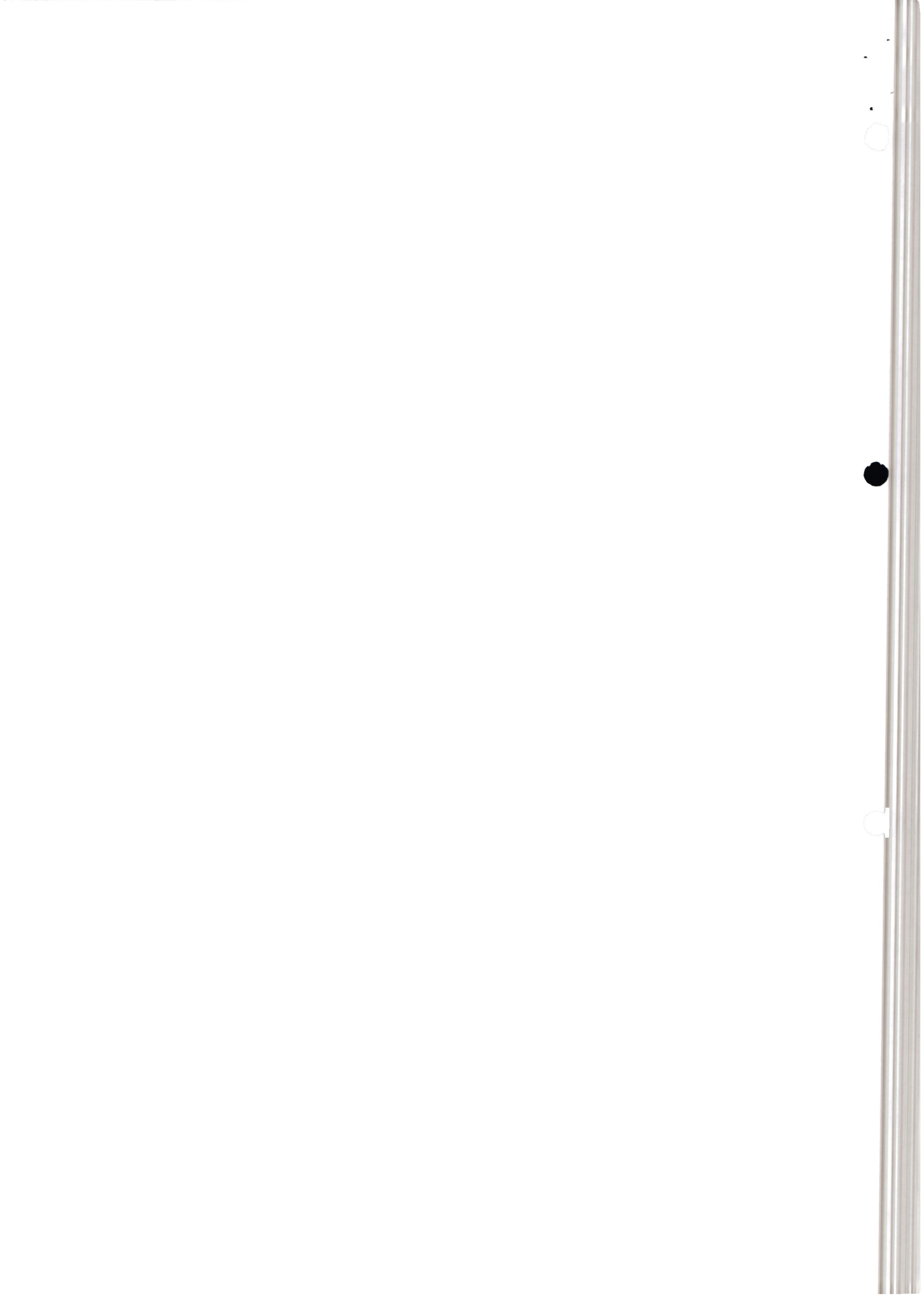
	2018	2017
	Kshs	Kshs
Consultancy/In depth Analysis	6,076,520	10,093,089
Certifications	833,576	298,340
Insurance Brokerage	<u>21,371,790</u>	<u>21,949,762</u>
Total contracted services	28,281,886	32,341,191

26. Cash generated from operations

	2018	2017
	Kshs	Kshs
Surplus/Deficit for the year before tax	(258,587,395)	79,930,117
Adjusted for:		
Depreciation	137,303,866	104,526,711
Finance Income	(2,587,230)	(6,423,711)
Increase/Decrease in fair value of biological assets	(64,466,400)	(4,516,940)
Working Capital adjustment:		
Increase in Inventory	296,502,768	(175,285,861)
Increase in receivables	(149,159,763)	(51,709,132)
Increase in payables	3,070,961	54,804,356
Tax Paid	<u>(105,049)</u>	<u>(881,544)</u>
Net cash flow from operating activities	(38,028,242)	444,356

27. Retirement Benefits Scheme

The Corporation operates a defined contribution retirement plans for eligible employees. The assets of the plans are held separately from those of the Corporation in funds under the control of trustees. The scheme is administered by an independent administration company and is funded by contributions from the Corporation employees. The Corporation obligations to the staff retirement benefits plans are charged to profit or loss as they fall due as they accrue to each employee. The Corporation also makes contributions to the statutory defined contribution schemes. The only obligation of the Corporation with respect to the retirement benefit plan is to make the specified contributions. The expense in respect to NSSF and Employer Pension contribution of **Kshs 814,200** and **Kshs 11,207,830.00** respectively has been included within the retirement benefits costs under staff costs in the notes.



**KENYA ORDNANCE FACTORIES CORPORATION
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Notes to the Financial Statements Continued:

28. Financial Instruments and Risk Management

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

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

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

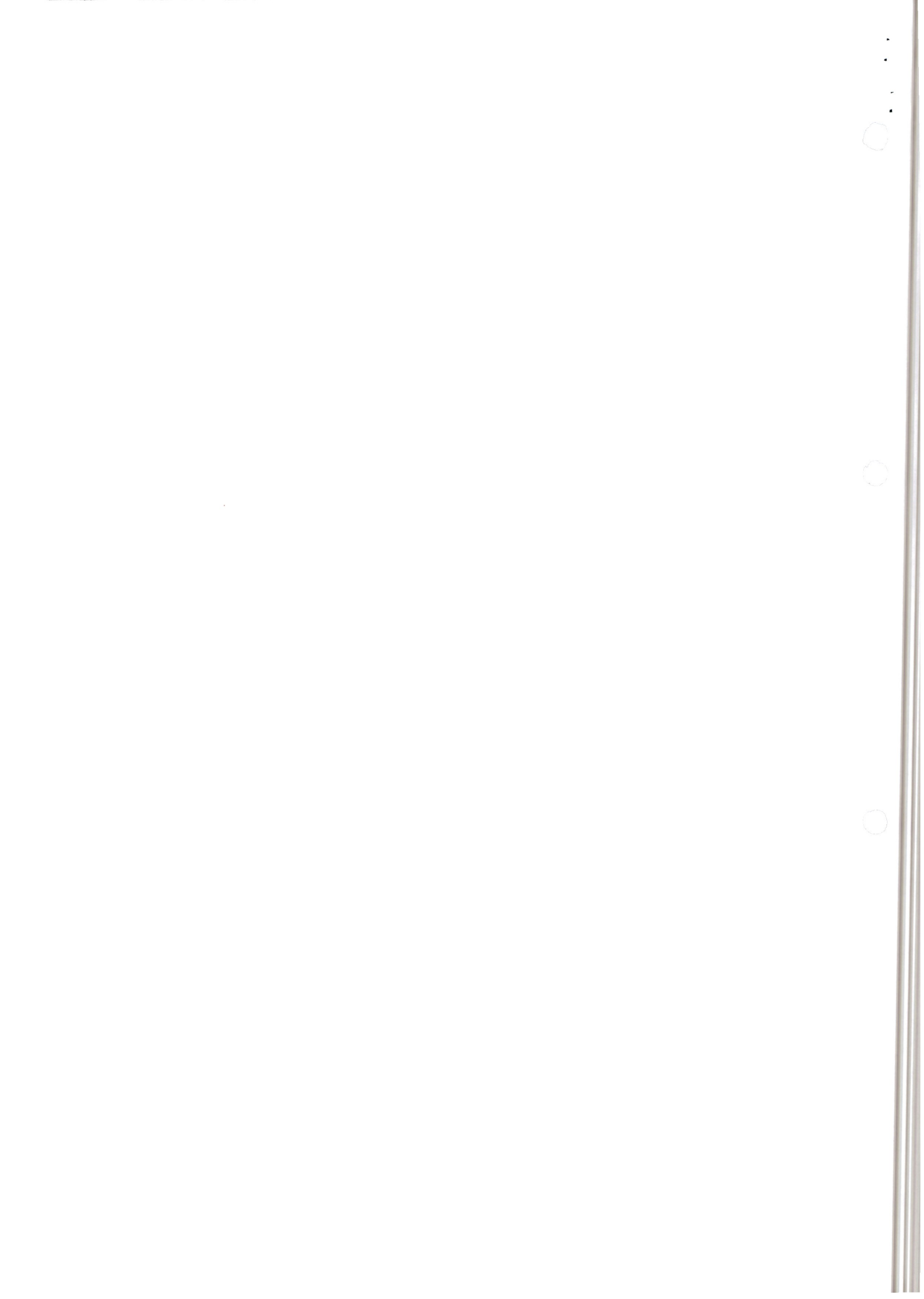
30. Liquidity Risk Management: Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations from its financial liabilities when due at a reasonable cost.

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

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

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

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

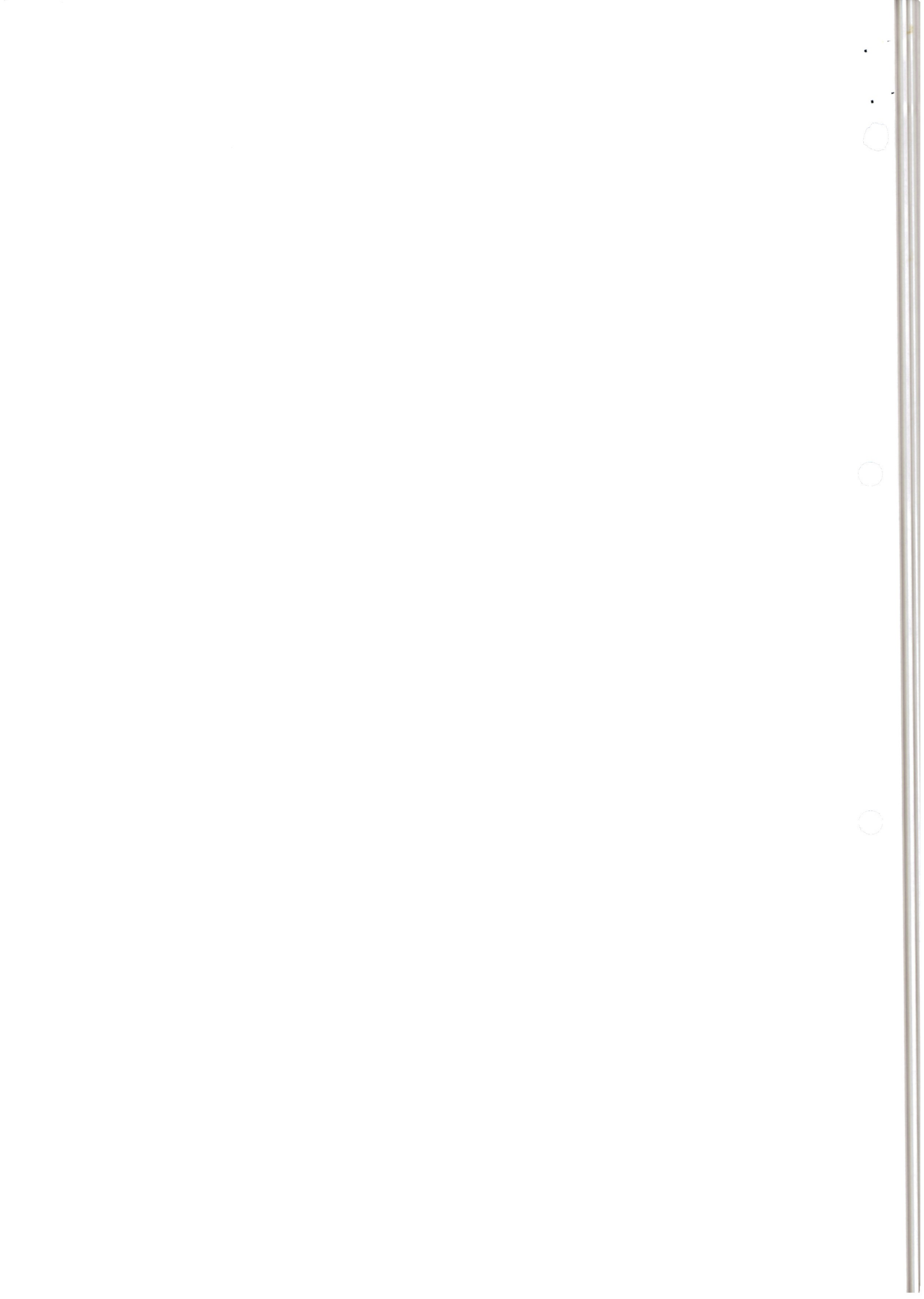


**KENYA ORDNANCE FACTORIES CORPORATION
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Notes to the Financial Statements Continued:

34. DETAILED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30/06/2018	YEAR ENDED 2017-2018 KSHS.	YEAR ENDED 2016-2017 KSHS.
SALES	725,760,902	725,285,941
LESS:		
Opening stock of finished goods	150,764,728	148,246,522
Production cost of finished goods	1,133,755,948	885,199,312
Closing stock of finished goods	(87,969,124)	(150,764,728)
COST OF GOODS SOLD	<u>1,196,551,552</u>	<u>882,681,106</u>
TRADING (LOSS)/PROFIT	(470,790,650)	(157,395,164)
DEFKITCH 2012 (Field Kitchen Sales)	19,661,724	39,579,107
Bank interest income	2,587,230	6,423,349
Water Sales	53,544,592	46,453,317
Scrap Sales	28,239,880	37,892,242
Milling Sales	85,493,954	59,275,229
Farm income	17,706,152	84,614,021
Bakery Sales	130,336,506	104,567,350
KDF FPF Sales (Dehydrated Vegetables)	1,617,556	-
Insurance Refund and Crop Destruction Fees/Fine	900,872	2,103,477
Recurrent Grants	420,342,913	354,845,911
Fair Value Gain/(Loss) on Biological Assets	66,063,443	4,516,940
	<u>355,704,172</u>	<u>582,875,779</u>
EXPENDITURE		
Motor vehicle running expenses	30,121,709	26,244,580
Travelling and accommodation	19,077,562	13,097,331
Administration salaries and allowances	128,797,730	111,338,404
Telephone and postage	4,110,610	2,818,691
Computer expenses	4,666,247	1,019,450
Official Entertainment	1,219,973	1,380,393
Directors Fees	877,038	481,075



**KENYA ORDNANCE FACTORIES CORPORATION
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Legal and Consultancy	5,576,520	10,093,089
Weapon Repair Expenses	2,876,726	23,408,753
Uniforms	643,555	1,882,391
Printing and Stationery	1,968,450	1,991,224
Rents	2,614,000	1,725,600
General stores and Replacement of Pumps	6,251,987	9,611,739
Training	4,390,630	353,777
Research & Development	1,207,577	3,344,749
Bank charges	3,322,969	4,240,696
Medical expenses	21,274	5,055
Electricity	6,364,224	8,890,275
Advertising	750,362	1,563,454
Newspapers and periodicals	486,820	595,258
Domestic and Household Expenses	2,691,505	3,513,087
Insurance	4,274,358	4,389,952
Building and Roads Maintenance	14,448,376	18,950,073
Clearing and Transportation Expense	17,487,711	40,505,056
Iso Certification	833,576	298,340
Water and Conservancy	392,026	1,016,742
Security Expenses	3,640,295	14,756,928
Communication Expenses	237,450	17,999
Field Kitchen Fabrication	3,932,087	3,747,229
Farm Expenses	47,293,408	48,890,451
Bakery Consumables	82,702,618	85,273,631
Water Bottling Consumables	24,341,158	9,376,778
Milling Plant Consumables	59,594,905	38,273,783
Machine Overhaul/Upgrade	12,223,200	-
KDF FPF Expenses	88,848,668	-
Provision for Audit Fees	812,000	
Depreciation:		
Motor vehicles	6,268,912	2,935,684
Buildings and civil works	953,474	1,727,313
Furniture and fittings	492,242	235,892
Waterline and civil works	6,020,661	953,474
Computers	11,456,971	2,318,432
TOTAL EXPENDITURE	614,291,566	502,078,830
Withholding Tax	(105,049)	(963,502)
OPERATING (LOSS)/PROFIT	(258,692,444)	79,833,447



**KENYA ORDNANCE FACTORIES CORPORATION
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Notes to the Financial Statements Continued:

**35. MANUFACTURING ACCOUNT FOR
YEAR ENDED 30TH JUNE 2018**

	YEAR ENDED 2017-2018 KSHS	YEAR ENDED 2016-2017 KSHS
DIRECT COSTS:		
Opening stock of raw materials	1,175,345,417	648,291,295
Purchases of raw materials	457,920,160	862,763,546
	1,633,265,577	1,511,054,841
Less:		
Closing stock of raw materials	(988,630,525)	(1,175,345,417)
Cost of raw materials used	644,635,052	335,709,424
Add:		
Direct labour	300,528,037	259,789,610
Prime cost	945,163,089	595,499,034
FACTORY OVERHEADS:		
Insurance	17,097,432	17,559,810
Electricity	22,661,375	35,561,099
Water & effluent treatment chemicals consumables	5,198,604	1,129,778
	13,872,921	8,611,643
Machine spares & Maintenance	26,249,369	11,569,056
Depreciation:		
Plant and machinery	32,453,872	72,946,461
Motor vehicles	1,003,026	11,742,737
Buildings and civil works	3,813,898	6,909,252
Furniture and fittings	11,813,817	943,567
Waterline and civil works	60,206,609	3,813,898
	194,370,923	170,787,302
TOTAL	1,139,534,012	766,286,336
Opening work-in-progress	38,707,103	147,437,688
Opening scrap	1,050,000	11,232,390
Less:		
Closing work-in-progress	(45,535,167)	(38,707,103)
Closing scrap	-	(1,050,000)
PRODUCTION COST OF FINISHED GOODS	1,133,755,948	885,199,312

**KENYA ORDNNANCE FACTORIES CORPORATION
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

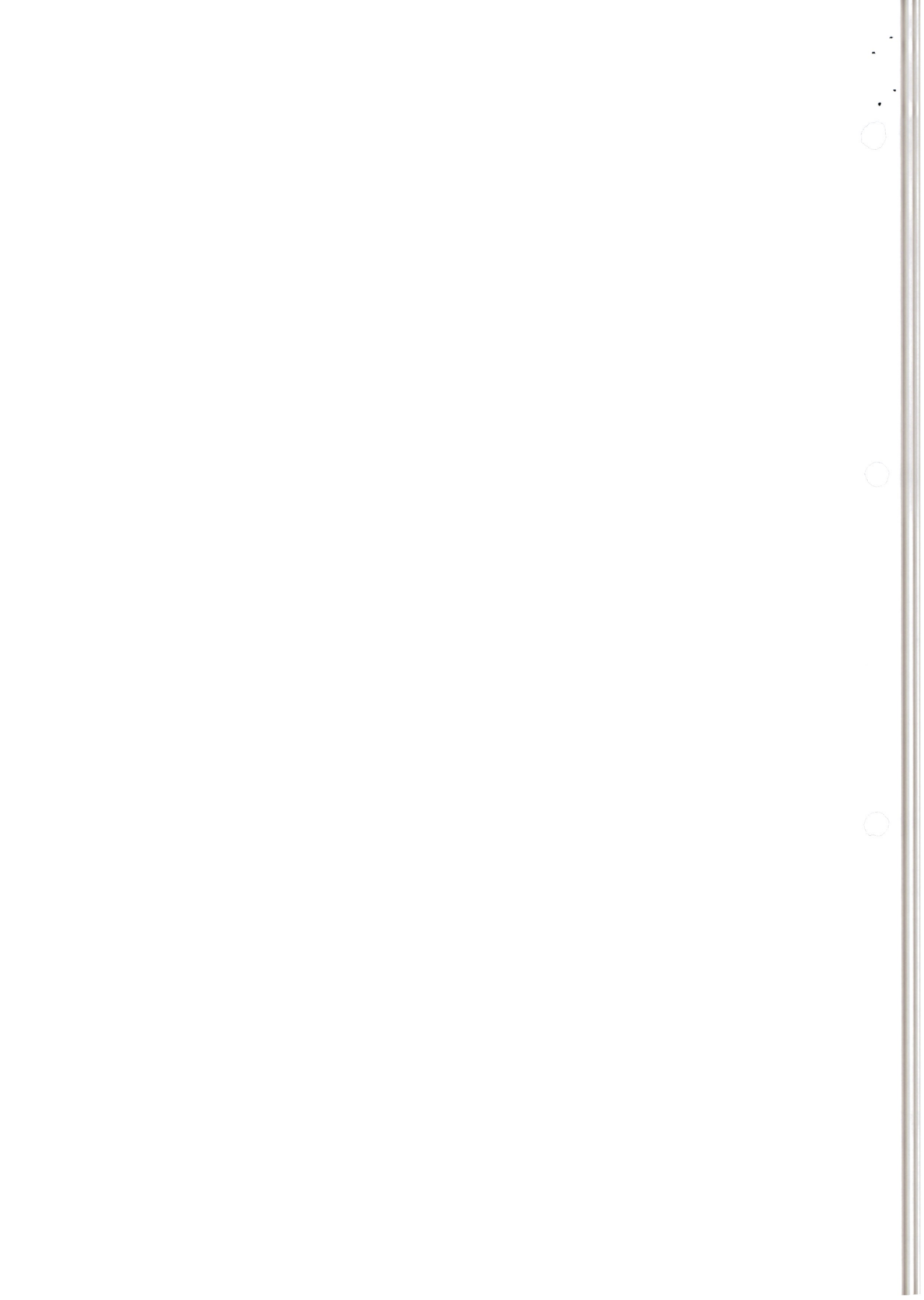
PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
1.0					
1.1	<p><u>Property Plant and Equipment Assets Register.</u> The statement of financial position reflects property plant and equipment figure of Kshs.2,987,593,272 as at 30 June 2017 comprising of building and civil works, water line and civil works, work in progress, plant equipment and machinery, motor vehicles, furniture and fittings and computers with total cost of Kshs.4,549,761,722 as disclosed in note 11 to the financial statements. However, assets with total cost of Kshs.810,360,413 were not recorded in the fixed asset register. Further as reported in the previous years, a schedule with details of the buildings, civil works, waterline plant, equipment and machinery, furniture and fittings has not been provided for audit verification. Although management explained that the register indicates the block figures that were obtained from the records of the contractor and that the Ministry of Defence is working with the government chief Valuer of the</p>	<p>The Statement of Financial Position reflects property plant and equipment figure of Kshs 2,987,593,272.00 as at 30 June 2017. However, assets with total cost of Kshs 810,360,413 were not recorded in the fixed assets register since their values cannot be ascertained resulting to it being incomplete dating back to the inception of the factory. The fixed asset register requires details, values of all assets including land. The existing asset register reflects all the various cumulated assets heads in block figures obtained from records of the contractor (FN Herstal of Belgium). The figures are the ones we are currently depreciating to date. In order to facilitate updating of the register and to capture all the assets individual value, the Board of Directors during the 50th Board meeting directed Ministry of Defence Works Department in liaison with the Chief Valuer Ministry of Land Housing and Settlement to value all the Corporation assets including land and thereafter update the register and depreciate them accordingly. However, Ministry of Lands Housing and Settlement requested for a budget to be able to undertake the</p>	KOFCC Board of Directors and Ministry of Defence	Valuation yet to commence.	30 June 2020

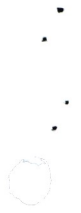
**KENYA ORDNANCE FACTORIES CORPORATION
REPORT AND FINANCIAL STATEMENTS
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Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
	<p>Ministry of Lands Housing and settlement to value all the Corporation assets including land so that the same can be properly documented, no documentary evidence has been provided in support. It is therefore not known when the process of valuing of the assets shall be completed and the register updated. Consequently, the accuracy, validity and existence of the assets' balance of Kshs.2,987,593,272 could not be confirmed.</p>	<p>works. The budget was to be factored in Ministry of Defence budget for FY 2016/17. It was also observed that engaging Ministry of Lands Housing and Settlement involved long bureaucracy. To fast track the process, the audit committee recommended engagement of a private Valuer to undertake task.</p> <p><u>Remarks:</u> The plan is to engage a private practitioner to value the Corporation Assets and update the Asset Register. The proposal will be deliberated upon by the Board of Directors during the next scheduled meeting with a view of providing guidance.</p>			
1.2	<p>Land: The statement of financial position as at 30 June 2017 and note 11 to the Financial Statements reflect non-current assets figure of Ksh 2,987,593,272. However, as reported in previous years, the Corporation only has title documents for land measuring 727.7 hectares on which the factory stands. The Corporation further requested the Government to allocate it additional 908 hectares to enable it attain the required safety distance for the factory, subsequent to which an allotment letter for additional land was issued. The process of surveying the additional 908 hectares started in February 2011 but stalled due to</p>	<p>The Corporation Factory land comprises of 727.7 Ha where the Buildings, Civil Works and Machines/Equipment stand and 908 Ha that caters for the mandatory international 2 Km radius safety distance/buffer zone. The 727.7 Ha has a title deed while the 908 Ha has no title deed and is considered a Military Land from the date of inception of the factory and their values not included in the financial statements. To address this, the process of acquiring and valuing all the Corporation land was at an advanced stage after Cadastral Survey exercise on all Military land was completed in November 2014. Survey works to pave way for the issuance of title deeds and subsequent valuation which had initially stalled due to interference by the Locals/squatters was concluded by surveyors from the Ministry of</p>	KOFCC Board of Directors and Ministry of Defence	Valuation yet to commence awaiting issuance of title deeds.	30 June 2020



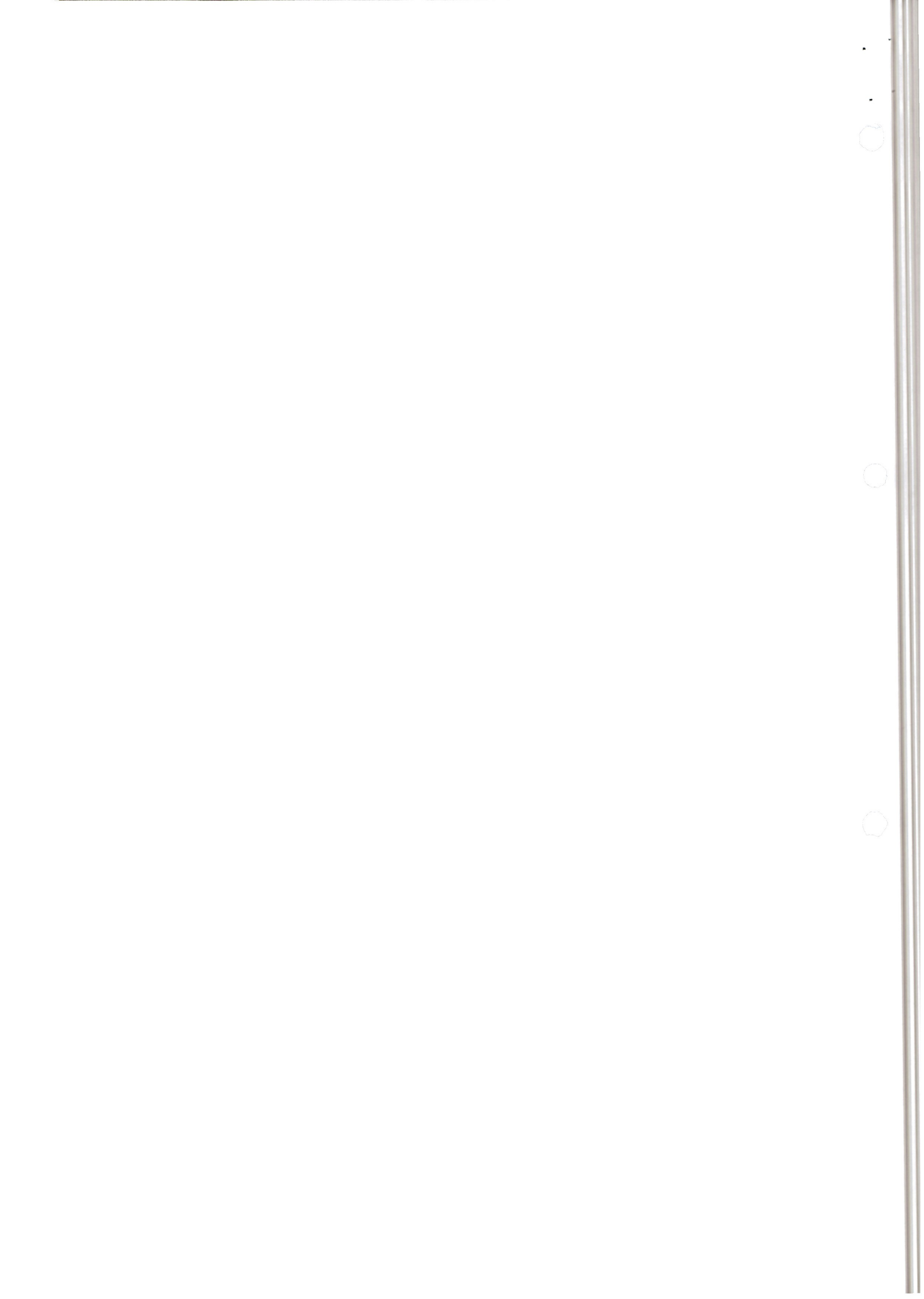
**KENYA ORDNNANCE FACTORIES CORPORATION
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Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
	<p>squatters who could not allow surveyor's access to the land in the buffer zone which is necessary to ensure safety of the people in the neighbourhood and security of the factory in accordance with International Standards.</p> <p>In addition, all parcels of land including land registration numbers Kakamega/Sango/1970.LR No.27206/1 and LR No.27206/2 measuring 0.48 hectares, 2,545 hectares and 727.1 hectares respectively have not been valued and included in these financial statements.</p> <p>Consequently, the accuracy and completeness of the non-current assets' balance of Kshs.2,987,593,272 could not be confirmed.</p>	<p>lands and the beacons to cover the buffer zone confirmed by us on 04/June 2014.</p> <p>The title deed for LR 27206 (908 Hectares) was to be issued in the month of December 2014. The Ministry of Defence has engaged the Works Department in liaison with the National Land Commission, Chief Valuer Ministry of Lands Housing and Settlement to value land measuring 727.7 hectares and the additional 908 hectares once the title for the land is issued.</p> <p>The parcel of land Kaka mega/Sango/1970, LR No. 27206/1 and LR No. 27206/2 measuring 0.48 hectares, 2545 hectares and 727.7 hectares all with titles was due for valuation but due to lack of budget allocation, the exercise was postponed and scheduled for FY 2016/17. Although the process of valuing the land is in progress, there has been a frosty relation between KOFC, local neighbouring population and County Administration since March 2016 on the 908 and 727.7 hectares, as a result of land dispute between the locals agitating to be squatters. The land dispute culminated to the Parliamentary Select Committee (PSC) on Defence and Foreign Relation visit to the Corporation on 08 November 2016, where they were briefed on the same.</p> <p>To address the prolonged land dispute, the PSC recommended fencing of the land belonging to</p>			



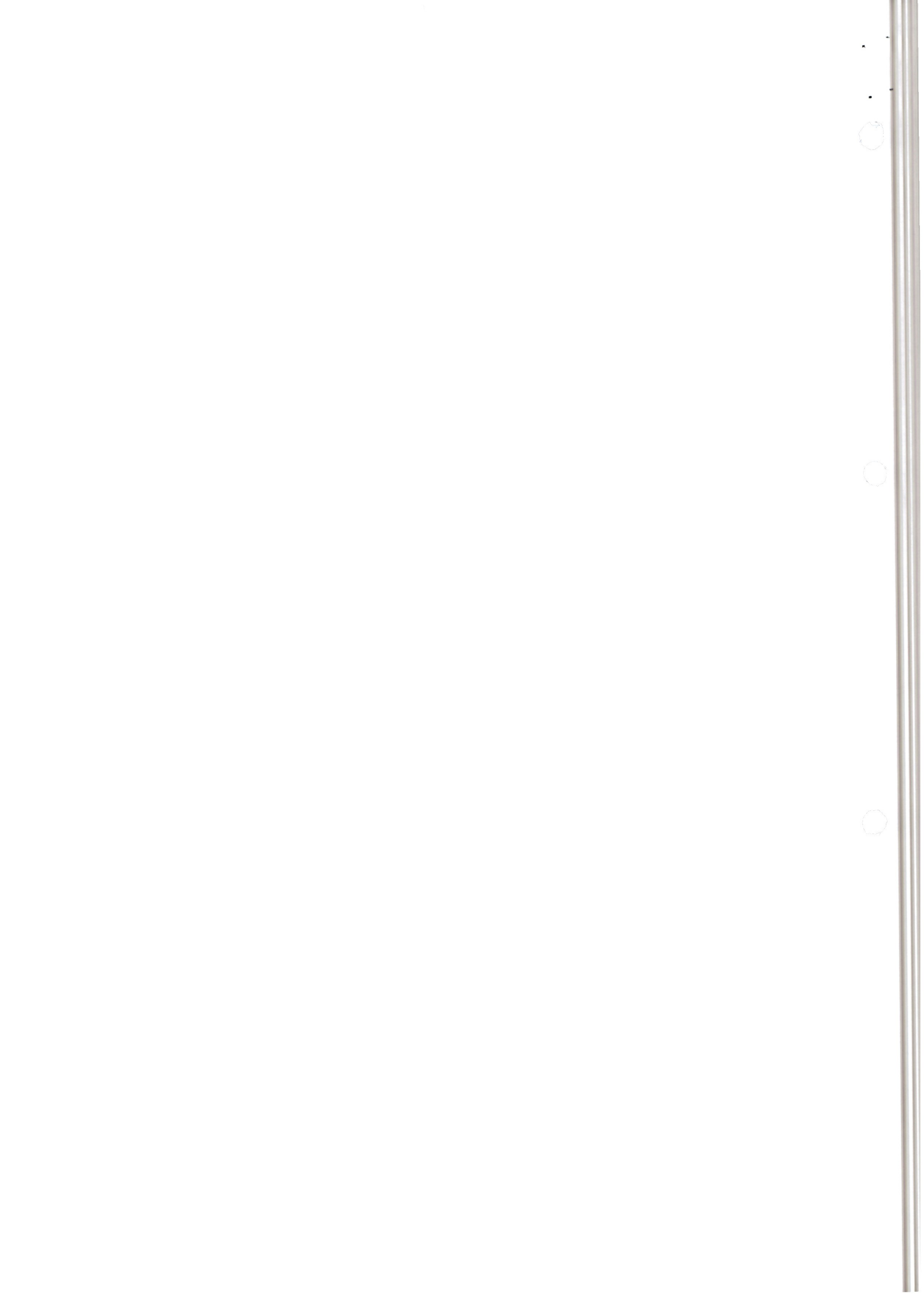
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Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
1.3	<p>Idle Machinery: Available information revealed that the corporation has in its records idle property, plant and equipment with an unknown value which were either installed, partially installed or not installed at all comprising of anvil piecing machines (2No) ,prima cap</p>	<p>KOFC. Subsequently, the Board of Directors during the 52nd Board Meeting held on 09 December 2016 approved the tunnelling/embankment of KOFC land at Kshs 10 million and Recruit Training School at Kshs 22 million which is currently on-going. The land earmarked for valuation and their values to be included in the financial statements are registration numbers Kaka mega/Sango/1970, LR No. 27206/01 and LR No. 27206/2 measuring 0.48 and 727.10 hectares. Valuation of lands with titles was delayed deliberately to allow issuance of title of the allocated land and to avoid assumption that the rest of the land has been surrendered to squatters.</p> <p>Remarks: This matter is being addressed by a committee which was established by Ministry of Defence to address matters relating all Military Lands. It is recommended that valuation to be undertaken on all KOFC land once they are all fully documented and with titles.</p>	KOFC Board of Directors and Ministry of Defence	Assets still Idle	30 June 2020
	<p>The initial Concept of the Factory was to establish Small Arms Ammo Factory, Engineering Factory, Apparels Factory and Telecommunication Factory which were to be implemented in phases. The first phase was the establishment of Small Arms and Ammo factory which included production of Assorted Small Calibre Ammo, Arms, Primers, Tracers and</p>				



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Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
	<p>manufacturing machine (1No), prima polishing machines (5No) and a tracer bullet loading. The machinery has been lying idle from the time the factory was built. This is contrary to the provisions of section 72(1) (a) of the Public Finance Management Act, 2012 which states that the accounting officer for a national government entity shall manage the assets of the entity in a way which ensures that the national government entity achieves value for money in acquiring, using and disposing of those assets. Consequently, the Corporation has not obtained value for money in respect of the idle machinery that have not been put to use since the factory was established.</p>	<p>Propellant Powder. In this phase, the contractor FN Herstal of Belgium installed machines for the manufacture of some NATO small calibre Ammo and supplied partly machines for the manufacture of Primers and Tracer Bullets which have never been installed or used. These machines are in records and treated as Idle Property, Plant and Equipment that were either partially or not installed and have never been in use since 1987 the time of inception of the factory.</p> <p>The details of the Ammo Production machines that were purchased and received are not available since the project was undertaken by FN Herstal and the Ministry of Finance (The National Treasury). These machines are the Anvil Piecing Machines, Prima Cap Manufacturing Machine, Prima Polishing Machines and Tracer Bullet Loading Machines are not attached to any cost but cumulated in the Block Figure in the Property Plant and Equipment under note 11 to the FY 2016/17 Financial Statements. It is worth to note that the contractor did not officially hand over the project in the year 1997 since they left at haste and therefore there was no official/proper documentation. This made it difficult for the Board of Directors to address relating to Idle Assets as their efforts were rendered futile.</p>			
		<p>The Board of Directors through Unionlet of United Kingdom engaged the initial contractor</p>			



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Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
		<p>FN Herstal of Belgium in the FY 2015/16 to conduct an In Depth Analysis with a view of upgrading the Production Line and the Completion of the Idle Assets. The report obtained from Unionlet after conducting the In Depth Analysis was studied and deliberated upon by the BoD and it was found to be too expensive at a cost of Ksh 2.7 Band the budget of such amount was not available and was also not cost effective. The breakdown is as follow:</p> <p>The initial Concept of the Factory was to establish Small Arms Ammo Factory, Engineering Factory, Apparels Factory and Telecommunication Factory which were to be implemented in phases. The first phase was the establishment of Small Arms and Ammo factory which included production of Assorted Small Calibre Ammo, Arms, Primers, Tracers and Propellant Powder. In this phase, the contractor FN Herstal of Belgium installed machines for the manufacture of some NATO small calibre Ammo and supplied partly machines for the manufacture of Primers and Tracer Bullets which have never been installed or used. These machines are in records and treated as Idle Property, Plant and Equipment that were either partially or not installed and have never been in use since 1987 the time of inception of the factory.</p> <p>The details of the Ammo Production machines</p>			



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Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
		<p>that were purchased and received are not available since the project was undertaken by FN Herstal and the Ministry of Finance (The National Treasury). These machines are the Anvil Piecing Machines, Prima Cap Manufacturing Machine, Prima Polishing Machines and Tracer Bullet Loading Machines are not attached to any cost but cumulated in the Block Figure in the Property Plant and Equipment under note 11 to the FY 2016/17 Financial Statements. It is worth to note that the contractor did not officially hand over the project in the year 1997 since they left at haste and therefore there was no official/proper documentation. This made it difficult for the Board of Directors to address relating to Idle Assets as their efforts were rendered futile.</p> <p>The Board of Directors through Unionlet of United Kingdom engaged the initial contractor FN Herstal of Belgium in the FY 2015/16 to conduct an In Depth Analysis with a view of upgrading the Production Line and the Completion of the Idle Assets. The report obtained from Unionlet after conducting the In Depth Analysis was studied and deliberated upon by the BoD and it was found to be too expensive at a cost of Ksh 2.7 Band the budget of such amount was not available and was also not cost effective. The breakdown is as follow:</p> <p>a. Safety, Building and Utility improvement</p>			

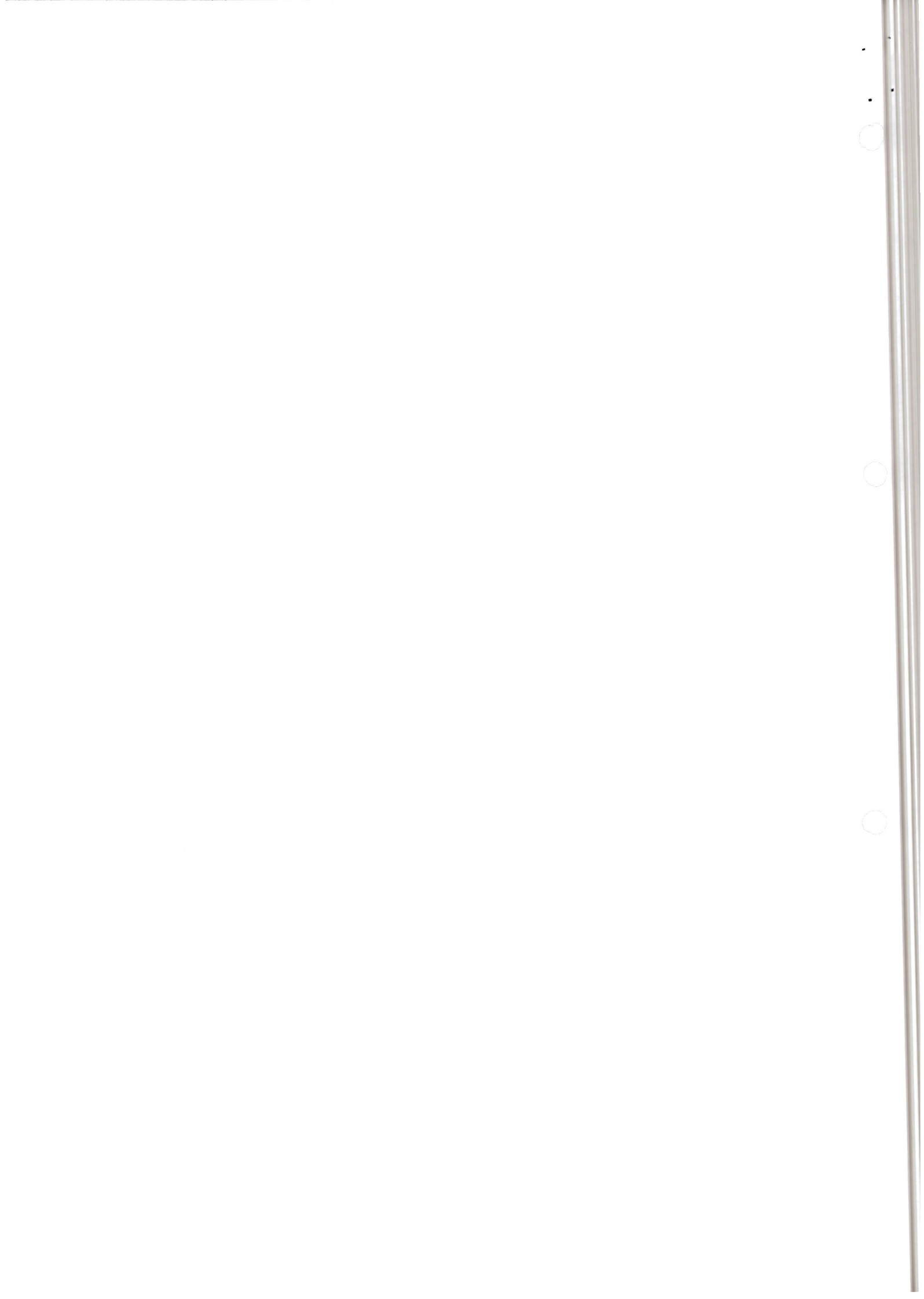
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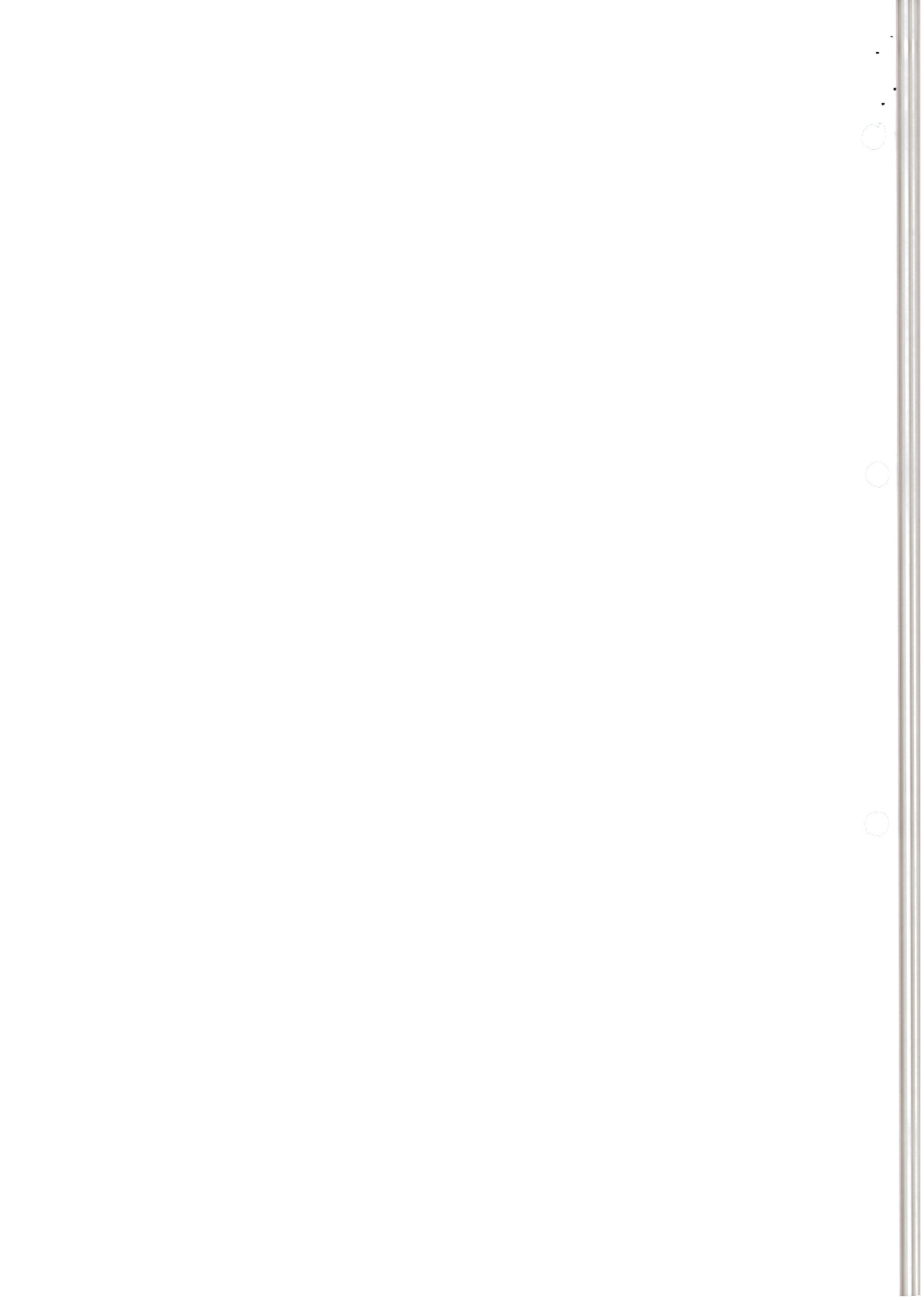
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Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
		<p>Ksh 295.9M</p> <p>b. Overhaul of 7.62x51mm production Line Ksh 1.350B</p> <p>c. Overhaul of 5.56x45 Production Line Ksh 823.2M</p> <p>d. Renovation of Tracer Bullet Production Line ksh 220.16M</p> <p>e. Inventory Management System Ksh 75.99M</p> <p>The In-Depth Analysis could not also capture KOFCC immediate requirements and aspirations of addressing the Idle Assets because the equipment were found to be obsolete due to age and technology. Although this will be considered in the near future, the Board of Directors approved as a priority the establishment of 7.62 x 39mm Production Line which is estimated to cost Ksh 1.9 Billion. In addition, some of the Idle Machines relates to Production of Primers, Propellant Powder and Tracer Bullets of which these projects are not viable at all considering the existing production Lines and requirements.</p> <p>Remarks: The established Audit Committee held a meeting on 14 Sept 18 to review FY 2016/17 financial statements recommended engagement of a private Valuer. The proposal will be deliberated during the next BoD meeting.</p>			



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Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
2.0 2.1	<p>Trade and Other Receivables; Claimable Value Added Tax</p> <p>As Previously reported, the statement of financial position reflects trade and other receivables' figure of Kshs.437,758,058 as at 30 June 2017 which includes claimable value added tax amount of Kshs.109,476,090 as disclosed in note 16 to the financial statements and which is indicated as Kshs.73,098,600 due from Ministry of Defence and Kshs.36,377,490 due from Kenya Revenue Authority. However, no record has been provided for audit verification to ascertain how the amounts were arrived at. Information available indicates that the amount of Kshs.73,098,600 includes Kshs.68,861,381 which was ascertained when the corporation filed a VAT claim of Kshs.81,000,000 which the Kenya Revenue Authority(KRA) for the Period September 2013 and July 2014 in November 2014 which was however long after the due date. Records reviewed indicated that the input tax on imported raw materials was paid by the Ministry of Defence on behalf of the Corporation using its PIN No</p>	<p>The Corporation FY 2016/17 Financial Position includes claimable Value Added Tax of Kshs 73,098,600 due from Ministry of Defence, Kshs 36,377,490 and Tax recoverable of Kshs 12,859,976 due from Kenya Revenue Authority. In the case of Kshs 73,098,600, the Corporation during the year 2012/13 cleared its imported raw materials and was charged VAT at a cost of Kshs 81 million contrary to its exemption. This was done through the engagement of Port Ordnance the institution that is responsible for the clearance of all imported goods/materials for the Ministry of Defence.</p> <p>The Corporation made the claim to the Kenya Revenue Authority (KRA) to refund. Subsequently, a team from the Auditor General Office was tasked to by verify the claim on behalf of KRA to facilitate the processing of the refund/payment. During the verification process it was noted that part of the amount claimed of Ksh 81 million included railway levies and custom duties amounting to Ksh 16,287,779.00 which was not claimable therefore reducing the admissible claimable amount to Kshs 64,771,221.00. Further, the Auditors observed that the records available indicates that the input</p>	KOFCC Board of Directors and Ministry of Defence	Claimable VAT of Ksh 109,476,090 is still outstanding.	30 June 2019



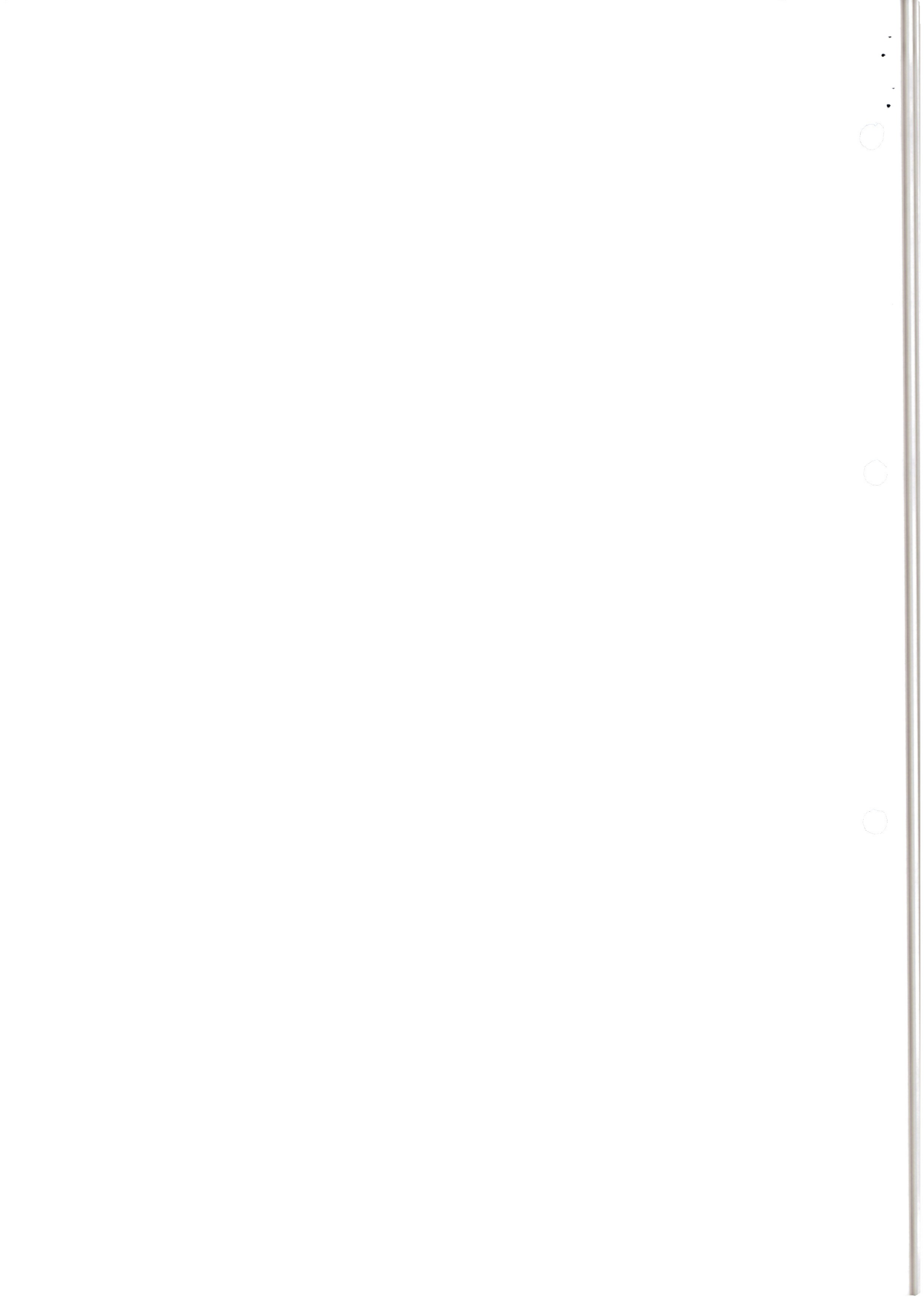
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Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
	<p>O051098785V while the claim was filed by the corporation using the Corporation PIN No P051121081J but there was no evidence to indicate that the two entities are jointly registered for VAT refund. Although the Corporation has now indicated that the amount is due from the Ministry of Defence, there has been no documentary evidence to show that the Ministry of Defence is pursuing the claim on behalf of the Corporation and if the amount is still recoverable.</p> <p>Further, included in the claimable VAT amount of Kshs.109,476,090 is an amount of Kshs.36,377,490 claimable for the year 2003. However, letter Ref no. KRA/DTTD/AM&RD007 dated 22nd February 2017 from Kenya Revenue Authority indicates that the withholding VAT Refund of Kshs.36,377,490 is not payable as the claimable was submitted late and therefore time bared. Although, the Corporation has indicated that it has engaged a tax consultant in March 2018 to follow up the claim, there has been no indication of the progress made in recovering the claim.</p> <p>Consequently, the recoverability of the claimable VAT amount of Kshs.109,476,090 is doubtful and the accuracy of</p>	<p>tax on imported raw materials was paid through Ministry of Defence (Port Ordinance) on behalf of the Corporation using DOD KRA PIN No P051098785V while the claim had been made by the Corporation using PIN No P051121081J. Considering that the two are not jointly registered for VAT refund, the Corporation with authority from Kenya Revenue Authority vide their letter reference P051121081J dated 08 December 2016 engaged Ministry of Defence to claim the amount of Kshs 64,771,221.00 on its behalf since the documents supporting the claim contain the DHQ PIN numbers.</p> <p>A letter was thereafter forwarded to the Ministry of Defence requesting them to claim for the refund of VAT on behalf of the Corporation. The Ministry of Defence launched a claim of the same which was to be processed. However, the Kenya Revenue Authority noted that the Corporation was enjoying a credit of the same amount as indicated in the monthly e - return acknowledgement. They further confirmed that the refund cannot be processed unless it is reversed by KOFC on the monthly e - Return Acknowledgement Slip to avoid duplication of the claim as KOFC is enjoying the credit while the Ministry of Defence has launched the same for refund. The amount has increased from Kshs 64,771,221 to Kshs 73,098,600 after considering input tax on raw materials for the year 2016/17</p>			



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Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
	<p>the trade and receivables balance of Kshs.437,758,058 as at 30 June 2017 could not be confirmed.</p>	<p>and the matter is being handled by the Board of Directors through a consultant.</p> <p>In the case of VAT claimable of Kshs 36,475,371.00 which has been outstanding for a long period is 16% VAT amount erroneously withheld on Ammo Products by the Kenya Police, Administration Police and the Kenya Forest Services. The Corporation made a claim to the Kenya Revenue Authority for refund. However, documents to confirm that the amount deducted as VAT totalling to this amount and remitted were not available with KRA to facilitate the processing. Kenya Revenue Authority requested KOFC to obtain the relevant documentations from the Kenya Police, Administrative Police and the Kenya Forests to support the claim which have been availed for confirmation of their admissibility.</p>			
		<p>Part of the amount is Kshs 12,859,976 being tax recoverable due from the Kenya Revenue Authority as withheld amount by our bankers on Fixed Deposit earnings and the same has been outstanding for the last 16 years. The auditor finds its collectability as doubtful and requires the Corporation to make a provision to cover the uncertainty of the claim.</p> <p>During the 54th Board of Directors meeting held on December 2017 considering that these tax</p>			



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		<p>issues have been outstanding for long, the members approved the engagement of a Tax consultant to address all related tax issues since they have been long outstanding. The consultant was competitively engaged and he is continuously updating the management on the progress made in recovering the claim. All required documentations was provided to the consultant and so far progress has been made by the consultant by obtaining a tax compliance certificate to expire 18/06/2018 which was part of the documentation for the processing of the Tax Exemption and to allow the refunds from the Kenya Revenue Authority.</p> <p>Kenya Revenue letter Ref. H.O 1013/1 dated 7 Jun 18 has acknowledged consultants application on the Tax Matters which he has since responded to it. The consultant is also due to obtain authority from KRA to the Ministry of Defence to Claim Kshs 81 Million after its reversal from KOFC tax portal. Even though the Auditors query the recoverability of the claimable VAT and Tax recoverable, there have been concerted efforts put in place by the management with the assistance of the consultant to ensure that the matter is concluded by Jan 19.</p> <p>Remarks: The consultant has made progress on the refunds of which he has made several applications on refunds and they are being</p>			



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Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
		<p>processed despite loss of original documentations by the Kenya Revenue Authority. The progress made by the consultant is as follows:</p> <ul style="list-style-type: none"> a. Obtained a compliance certificate for KOFC. b. Applied for tax exemption to avoid recurrence tax problems in future. c. Processed refund of Kshs 6,339,649.00 for the period of exemption (1999 to 2007). d. Undertook reconciliation of PAYE with KRA for clearance of KOFC to allow processing of other pending claims. e. Currently filing returns for 2017 to 2018 to facilitate refund of Kshs 16,973,371.00 f. Completed filing returns for FY 2013/14 to 2016/17 for compliance to avoid tax exposure of Kshs 98,981,970 when the tax holiday expired. g. Reversed credit in favour of MoD of Kshs 81M to facilitated refund to MoD on tax charged on exempted raw materials. h. Applied for refund of Kshs 25,005,544.00 withheld by Kenya Police, Admin Police and Kenya Forests Services. <p>Taxation of factory may be an impediment to its operations now and in the future and there is need to avoid recurrence of the same. In this regard, the consultant has applied to KRA for the Corporation to be exempted from tax considering its mandate and its strategic objectives.</p>			



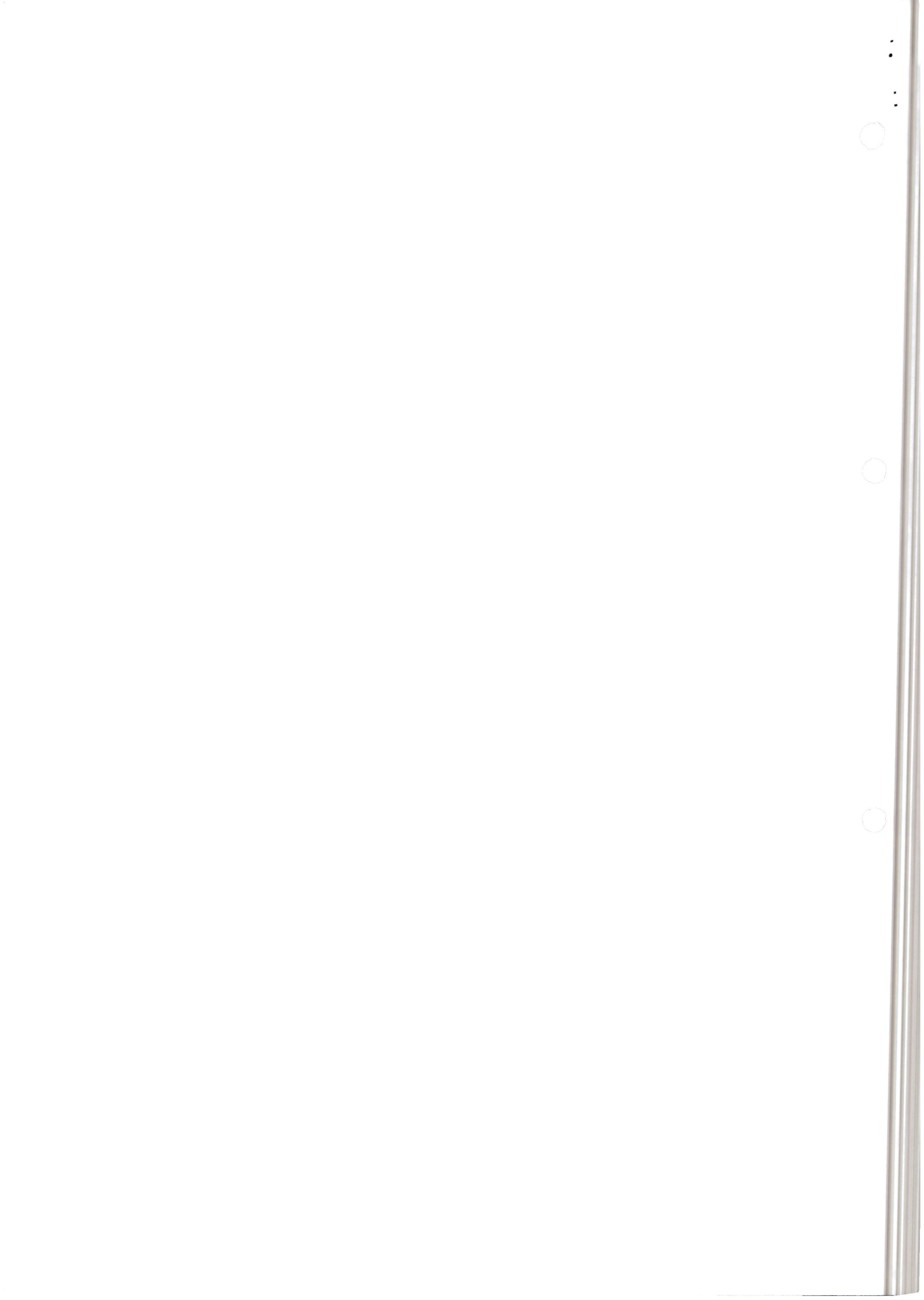
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Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
2.2	<p>Other Exchange Debtors Included also in the trade and other receivables figure of Kshs.437,758,058 is the other exchange debtors figure of Kshs.154,704,695 out of which an amount of Kshs.2,416,450 is in respect of a prepayment made to a South African firm in 2010/2011 and which has remained outstanding since then.</p> <p>Although the management has indicated that the issue is being pursued by the Kenya's Defence Attaché' in South Africa, no documentary evidence has been provided to show the Progress made and when the amount shall be recovered from the firm.</p>	<p>This Corporation made an order to M and E Tools (PTY) Limited of South Africa to supply quantity three (3) Complete Clutch - Harrison M350 for single lathe machine at CIF cost of Euro 18,268.80. This amount equivalent to Kshs 2,416,450.00 was paid in advance to the supplier as per the quotation of which they were to deliver the items within 12 to 16 weeks from receipt of the order. However, on 17 Feb 12 the supplier indicated that the price we paid for was for plates and not the complete clutch. This could not serve the purpose and was not commensurate with the amount paid in advance. It is in this regard that the corporation wrote a letter to the Kenya Defence Forces Director of Military Intelligence (DMI) to task DA South Africa to assist us in the recovery of the money from the firm. This is still being pursued by the DA South Africa however, considering that the firm has been in communication with the Corporation, it is our anticipation that they may be able to refund the amount or alternatively supply any other requirement quoted for and awarded and is equivalent to the same amount in order to settle the debt.</p>	KOFCC Board of Directors and Ministry of Defence	Refund of Kshs.2,416,450 is still outstanding.	30 June 2019



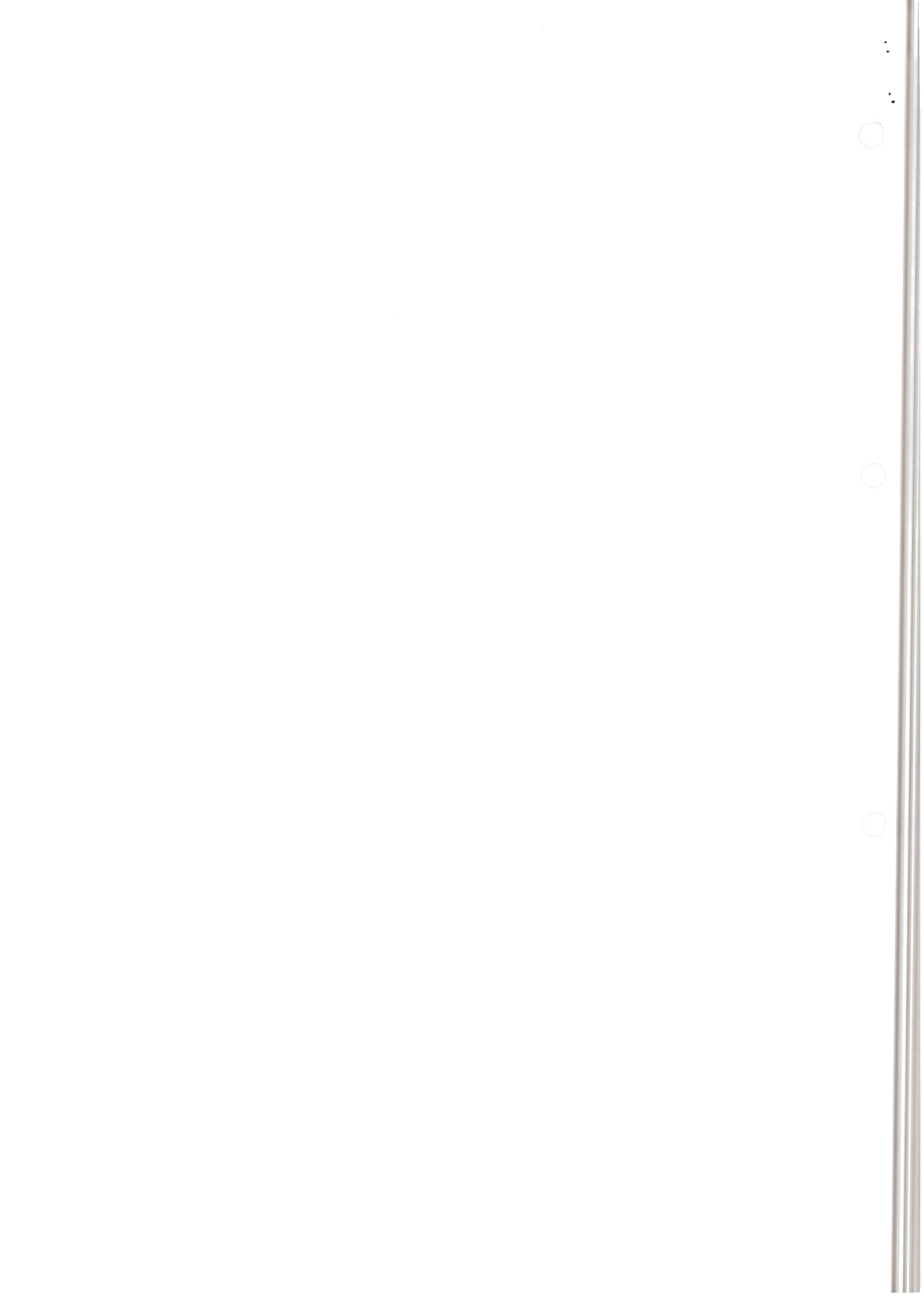
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Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
	<p>In addition, the other exchange debtors figure of Kshs.154,704,695 includes an amount of Kshs.9,088,067 owed by Engineers Brigade out of a total of Kshs.45,063,592 advanced to it between 2013 and 2015 to produce bottled water on behalf of the Corporation. Water supplies with an amount of Kshs.35,975,525 were made. Although information available indicates that a Board of Officers (BOO) was constituted in August 2017 to investigate the matter, a report of this instigation was not provided for audit review.</p> <p>Consequently, the recoverability of the prepayment balance of Kshs.11,504,517 could not be confirmed.</p>	<p>Remarks: The Corporation intends to seek arbitration through Ministry of Defence/Department of Defence Legal on the same as it was provided for in the terms and conditions of the order.</p> <p>The amount of Kshs 9,088,067 owed by Engineers Brigade out of a total of Kshs 45,063,592 advanced between the year 2013 and 2015 to produce bottled water in Thika on behalf of the Corporation is still outstanding to date. The Board of Directors during the 53rd and 54th Board meetings put in place measures to try and recover the amount. The Board of Inquiry constituted to investigate the Engineers Brigade outstanding debt of Kshs 9,088,067.00 is still ongoing. The outcome of the Board of Inquiry was deliberated upon during the 55th BoD meeting.</p> <p>Remarks: Engineers Brigade has refunded Kshs 77,654.00. The Managing Directors was also tasked to take disciplinary measure on Staff found culpable. It is our expectation that this matter will be completed in due course and findings implemented before the conclusion of auditing of FY 2018/19 Financial Statements.</p>			
2.3	Tax Recoverable.				



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Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
	<p>As reported in the previous years, the statement of financial position reflects tax recoverable balance of Kshs.12,859,976 as at 30 June 2017 as disclosed in note 17 to the financial statements in respect of Value Added Tax(VAT)due from Kenya Revenue Authority (KRA) which has been outstanding for the last 16 years. Although the collectability of this amount is doubtful, the Corporation has not made a Provision to cover the uncertainty in recovering the claim.</p> <p>Consequently, recoverable of the amount of Kshs.12, 859,976 could not be confirmed.</p>	<p>The FY 2018/19 financial statements will include a provision to cover the uncertainty of the collectability of Kshs 12,859,976 from KRA which has been outstanding for the last 14 years.</p>	<p>Finance Manager</p>	<p>Tax recoverable of Ksh 12,859,976 is still outstanding.</p>	<p>30 June 19</p>
<p>3.1</p>	<p>Trade and Other Payables. The statement of financial position reflects trade and other payables' balance of Kshs.515,566,684 which includes trade payables' figure of Kshs.277,354,628 as disclosed in note 20 to the financial statements. As reported in the previous years, the trade payables figure of Kshs.277,354,627 was in respect of prepayment made by the Ministry of Defence in respect of deposits for product purchases which have however remained unsettled or un-</p>	<p>During the Financial years 2007/08, 2008/09 and 2009/10 the Corporation imported Ammo Production Raw Materials from China which the lead time was more than two years resulting to low production. This was coupled by the poor quality of these raw materials resulting to failure in performance of the ammo products in the field. It was at this period that the Corporation had financial challenges since it had no products to sell and could not meet its obligations to include</p>	<p>KOFC Board of Directors.</p>	<p>Refund of Ksh 140,000,000.00 to Ministry of Defence is still outstanding.</p>	<p>30 Jun 19</p>



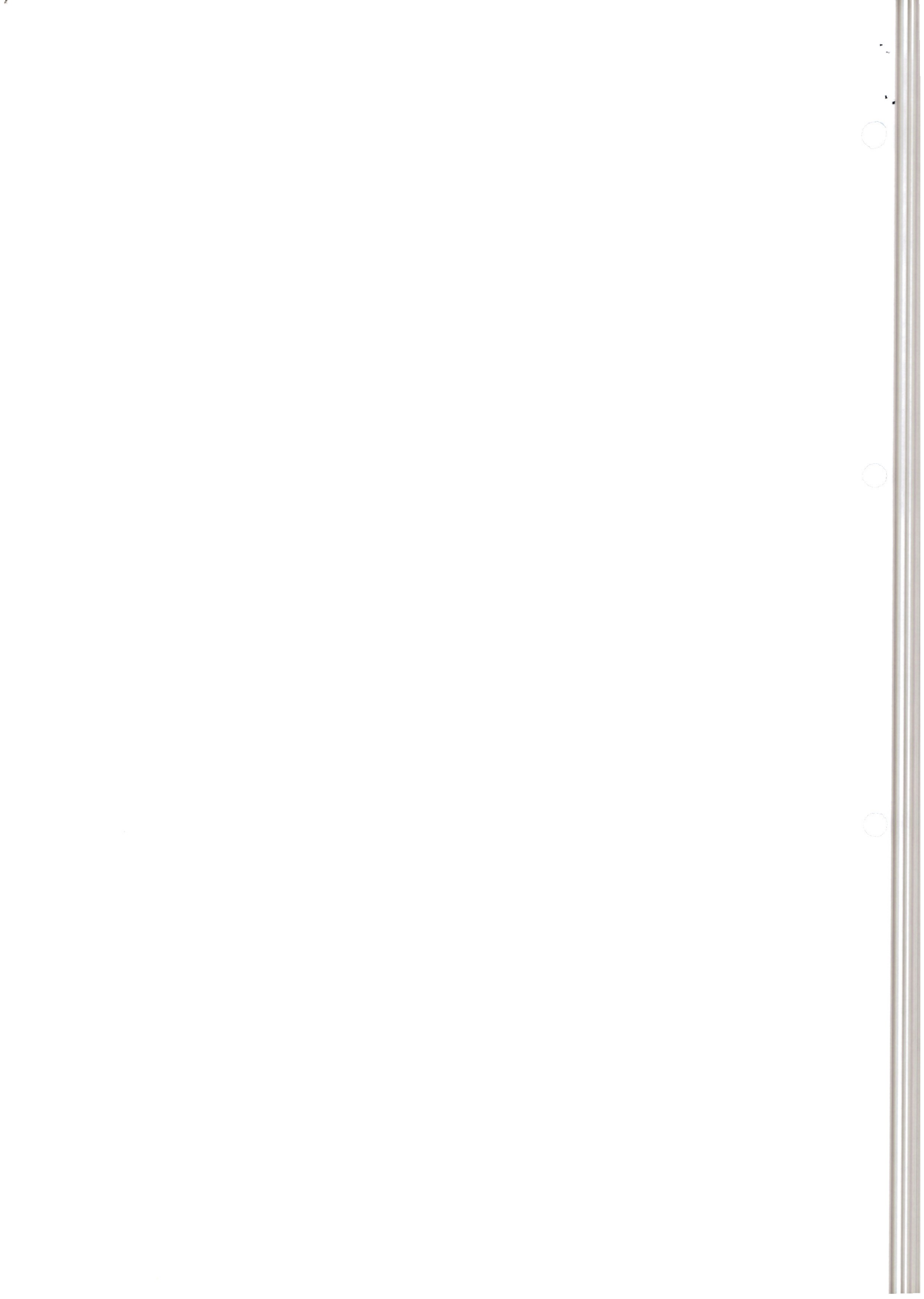
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Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
	<p>serviced since 2011/2012. Although the management has explained that the Corporation to issue a credit note for the outstanding balance, the agreement has not been availed for audit verification.</p> <p>The trade and other payables' balance of Kshs.515,566,684 also includes payments received in advance of Kshs.140,000,000 as disclosed in note 20 to the financial statements, being cash advance from the Ministry of Defence which was to be refunded in form of ammunition or cash but has remained outstanding since 2011/2012.</p> <p>Although the management has explained that the delay in refund has been due to frequent breakdown in machines and that with the establishment of a new production line, the corporation shall be in a position to service the order or refund the money, no indication has been given as to when the new Production line will be established or when the refund will be made.</p>	<p>purchase of raw materials and paying salaries.</p> <p>During the FY 2011/12, this Corporation was granted by the Board of Directors financial assistance as an advance of Kshs 140,000,000.00 (Our letter KOFC/0806 dated 19 April 2012) by the Ministry of Defence which was to be refunded in form of ammunition or cash when the Corporation financial situation improves. However, this obligation still remains as agreed. The servicing of these orders to refund Kshs 140,000,000.00 has been hampered by the challenges the Corporation of machine serviceability and machine breakdown resulting to low production output and hence not achieving targets as per the current demands by the security agencies. These challenges are:</p> <ol style="list-style-type: none"> a. Low Serviceability State of the Production Machines. b. Lack of Spares due to obsolescence. c. Increased customer requirements. d. Change in Product preference by customers. <p>Remarks: To address the query, a proposal will be presented to the next Board of Directors meeting to consider the treatment of this amount</p>			



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Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
3.2	<p><u>Trade and Other Payables.</u> The statement of financial position reflects trade and other payables' balance of Kshs.515,566,684 which includes trade payables' figure of Kshs.277,354,628 as disclosed in note 20 to the financial statements. As reported in the previous years, the trade payables figure of Kshs.277,354,627 was in respect of prepayment made by the Ministry of Defence in respect of deposits for product purchases which have however remained unsettled or un-serviced since 2011/2012. Although the management has explained that the Corporation to issue a credit note for the outstanding balance, the agreement has not been availed for audit verification.</p>	<p>in the FY 2017/18 as a grant since the Corporation may not be in a position to clear the amount in the near future. The outcome of the decision will be incorporated as we prepare the FY 2018/19 Financial Statements to be submitted by 30 Sept 19.</p>	KOFCC Board of Directors.	Servicing of outstanding Ammo orders of Kshs 277,354,627 due to the Ministry of Defence is still outstanding.	30 Jun 19
		<p>Prepayment amount of Kshs 515,566,684 as at 30 Jun 17 includes Kshs 277,354,627.00 paid in advance by the Ministry of Defence for the supply of Ammunition products. The Corporation serviced quantity one (1) million assorted ammunition as agreed upon during the Kenya Ministry of Defence (KMOD) and Kenya Ordnance Factories Corporation harmonization meeting held on 14 Nov 2014 at Headquarters Kenya Army Officers Mess (Minutes available). During the meeting, the outstanding amount worth of ammunition was Ksh 304,911,827.00 equivalent to quantity 7,229,452.00 assorted rounds reduced to Ksh 277,354,627.00 as at 30 June 2015. The reduction of Ksh 27,557,200.00 in the prepayments is a clear indication that the Corporation has and will continue servicing the order as agreed during the meeting. The</p>			



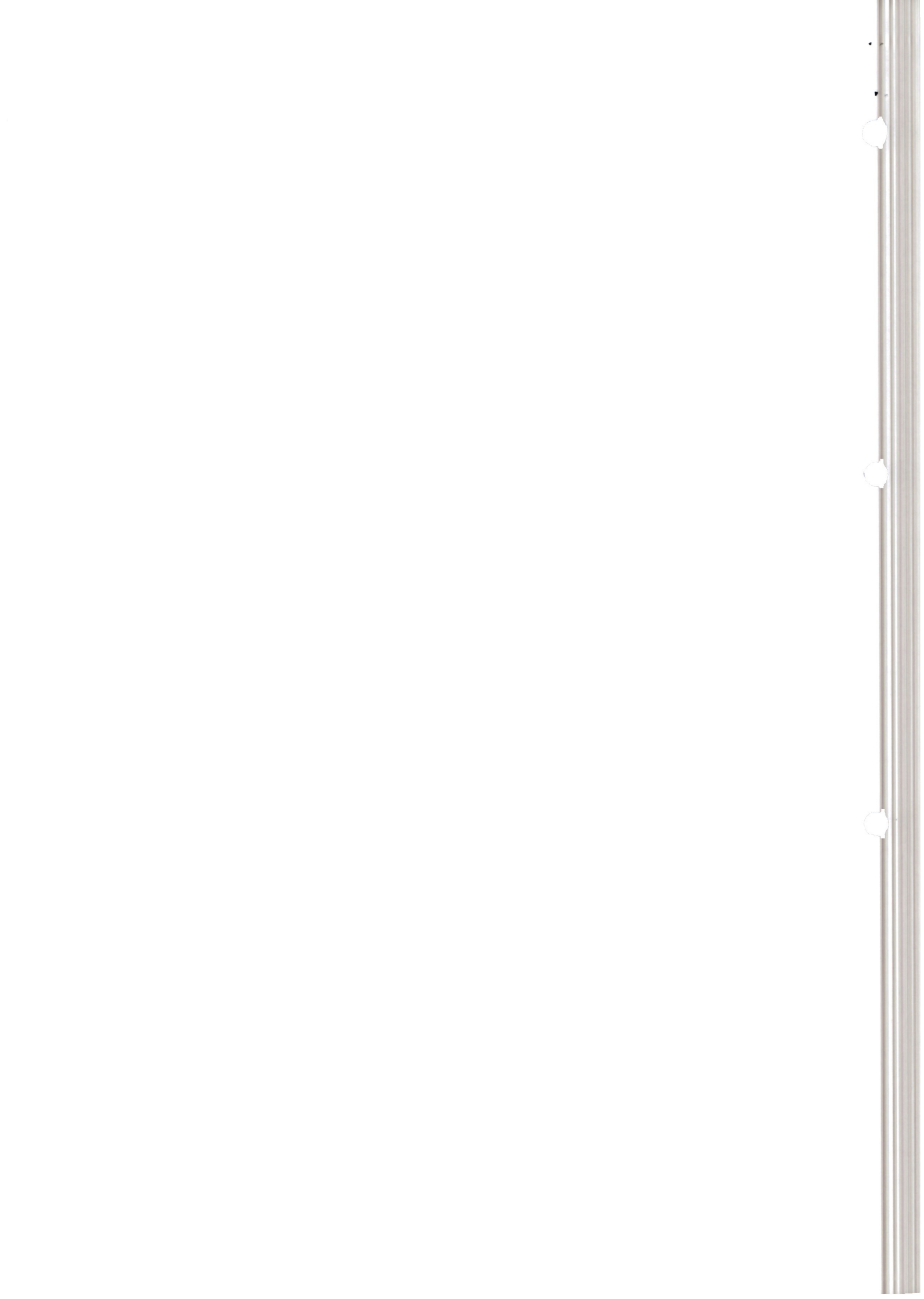
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FOR THE YEAR ENDED JUNE 30, 2018**

Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
		<p>agreement made during the meeting was that since the priorities of ammunition requirements rapidly change, the unsupplied quantities and worth be converted to monetary values and KOFC replaces them with a credit note. Once the credit note is issued, KMOD will have the freedom to raise fresh orders of equivalent credit note value to offset the debt. KMOD to orders total of quantity one (1) million assorted natures in the subsequent Financial Years. Although this is the position and consideration of the unserviceable or aged production lines which are not able to meet the current orders, the management during the next Board meeting will seek consideration of the debt. The Board through consultation with the stakeholders will advice on the future treatment of the debt.</p> <p>Remarks: It is recommended that this amount be considered as a grant and adjusted in the FY 2018/19 Financial Statements.</p>			
4.0	<p><u>Sale of Scrap Metal.</u> The statement of financial performance for the year ended 30 June 2017 reflects other income figure of Kshs.230,595,493 which includes</p>	<p>During the FY 2016/17, the Corporation sold Scrap Metal amounting to Ksh 37,892,241.50. The process complied with section 53 (4) of Public Procurement and Assets Disposal Act</p>	Managing Director, Commercial Services Manager	To be cleared during Systems Audit	31 Dec 18



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	<p>income from sale of scrap metal of Kshs.37,892,242 as disclosed in note 6 to the financial statements that were sold to a single firm. Records available indicates that the corporation's sale of scrap contract with the firm expired on 30 June 2016 but the firm requested for extension of the agreement for another two years commencing 1 July 2016. According to inter-office memo dated 30 June 2016, the management approved the extension of the sale agreement (KOF/C/001/15-16) and asked the buyer to review the current price of brass scrap at Kshs.208.80 per kilogram and stainless steel at Kshs.58 per kilogram to which the firm reviewed the price to Kshs.232 for assorted brass per kilogram and retained the price of stainless steel at Kshs.58 per kilogram.</p> <p>However, the Corporation did not maintain an annual asset disposal plan as required by section 53 (4) of Public Procurement And Assets Disposal Act, 2015 which states that all asset disposals shall be planned by the accounting officer concerned through annual asset disposal plan in a format set out in the regulations. Further, the</p>	<p>2015 by seeking clearance for the sale of these classified materials from the Ministry of Industrialization. A copy of the letter from Ministry of Industrialization outlining Companies authorized to buy such materials is available.</p> <p>The materials for disposal were assessed and a technical report written by the experts before bidding process was executed. The Technical Report is available. However as observed, the Corporation will comply with Section 53(4) of Public Procurement and Assets Disposal Act 2015 before disposal of Scrap and shall be subject to clearance from the Cabinet Secretary after Board approval in order to be in line with section 90 (5) of the Public Procurement and Assets Disposal Act, 2015.</p> <p>Remarks: Disposal of Scrap this FY 2018/18 will be subjected to all required regulations and comply with sections of Public Procurement and Disposal Act, 2015.</p>	<p>and Procurement Manager.</p>		



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	<p>Corporation did not provide clearance from the Cabinet Secretary in line with section 90 (5) of the Public Procurement and Assets Disposal Act, 2015 which states that the procuring entities that deal with classified items shall agree annually with the cabinet Secretary on the category of classified items shall agree annually with the cabinet Secretary on the category of classified items to be included in the classified list of procurements or disposals to be applied. In addition, there is no evidence that the current prices were determined by a technical committee in accordance with Section 164(3) of the same Act.</p> <p>Consequently, the management breached the law and the accuracy of the scrap mental income of Kshs.37,892,242 for the year ended 30 June 2017 could not be confirmed.</p> <p>The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Ordnance Factories Corporation in accordance with ISSAI 30 on code of Ethics. I have</p>				



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	<p>fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I Have obtained is sufficient and appropriate to provide a basis for my qualified opinion.</p>				
6	<p><u>Trade and Other Payables:</u> The statement of financial position reflects trade and other payables' balance of Kshs.515,566,684 which includes trade payables' figure of Kshs.277,354,628 as disclosed in note 20 to the financial statements. As reported in the previous years, the trade payables figure of Kshs.277,354,627 was in respect of prepayment made by the Ministry of Defence in respect of deposits for product purchases which have however remained unsettled or un-serviced since 2011/2012. Although the management has explained that the Corporation to issue a credit note for the outstanding balance, the agreement has not been availed for audit verification.</p>	<p>During the FY 2011/2012, this Corporation was granted financial assistance as an advance of Ksh 140,000,000.00 by the Ministry of Defence which was to be refunded in form of ammunition or cash when the Corporation financial situation improves. However, this obligation still remains as agreed and will be fulfilled when we conclude servicing of the outstanding orders for all our security agencies. Once we complete servicing of the orders, the funds generated will be utilized to procure additional raw materials for the production of required ammunition equivalent to Ksh 140 million in order to offset the liability.</p> <p>Prepayment amount of Ksh 529,140,745 as at 30 June 2015 includes Ksh 277,354,627.00 paid in advance by the Ministry of Defence for the supply of products. Contrary to the observation that this has remained un-serviced since FY 2011/2012, the Corporation has been servicing quantity one (1) million assorted ammunition as agreed upon during the Kenya Ministry of</p>	Board of Directors/ Commercial Services Manager and Production Manager	Ongoing	30 June 2020



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		<p>Defence (KMOD) and Kenya Ordnance Factories Corporation harmonization meeting held on 14 Nov 2014 at Headquarters Kenya Army Officers Mess. During the meeting, the outstanding amount worth of ammunition was Ksh 304,911,827.00 equivalent to quantity 7,229,452.00 assorted rounds has reduced to Ksh 277,354,627.00 as at 30 June 2015 of. The reduction of Ksh 27,557,200.00 in the prepayments is a clear indication that the Corporation has and will continue servicing the order as agreed during the meeting. The agreement made during the meeting was that since the priorities of ammunition requirements rapidly change, the unsupplied quantities and worth be converted to monetary values and KOFCC replaces them with a credit note. Once the credit note is issued, KMOD will have the freedom to raise fresh orders of equivalent credit note value to offset the debt. KMOD to orders total of quantity one (1) million assorted natures each subsequent financial year.</p>			
1.0	<p><u>Other Matter.</u></p> <p><u>Governance Framework.</u></p>				
1.1	<p><u>Lack of Independent Internal Audit Function.</u> Although the Corporation had established and internal audit unit to oversee the governance mechanism of</p>	<p>The Corporation Internal Audit comprises of seconded/attached Personnel from the Kenya Defence Forces. The team reports to Audit</p>	<p>Managing Director.</p>	<p>Resolved,</p>	<p>30 Jun 18</p>



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	<p>the corporation's resources, the unit operated without an audit charter detailing the scope, responsibilities and purpose of internal audit function. Although the management stated that the unit shall adopt and customize the Ministry of Defence internal audit charter, there is no indication as to when this shall be done and availed for audit review. Further, the internal audit function had only two officers who reported both administratively and functionally to the Managing Director instead of reporting functionally to the Audit Committee contrary to Section 155(1) of the Public Finance Management Regulations, 2015</p> <p>Consequently, the unit lacks operational independence and guiding tool to execute its mandate and which is against the law.</p>	<p>Inspectorate Board at Defence Headquarters who dictates their functions. The establishment of an Audit Committee will ensure that they report to it whereby all their functions will be dictated/directed by the Chairman Audit committee. Following report findings, the Internal Audit will adopt the Ministry of Defence Audit Charter which will be customized to KOFC detailing scope of responsibilities and purpose of internal audit function. The same will be presented to the Audit Committee and the Board of Directors for approval and adoption. With the establishment of an Audit Committee which the Internal Audit will be reporting to will ensure that they enjoy operational independence. KOFC management is committed to ensure that there is an effective and independent internal audit function.</p> <p>Remarks: The Corporation is in the process of adopting the Ministry of Defence Audit charter and customizing the same to KOFC. The internal auditors shall be reporting to the Audit Committee to comply with Section 155(1) of the Public Finance Management Regulations, 2015.</p>			
1.2	<u>Failure to Establish Audit Committee.</u>				



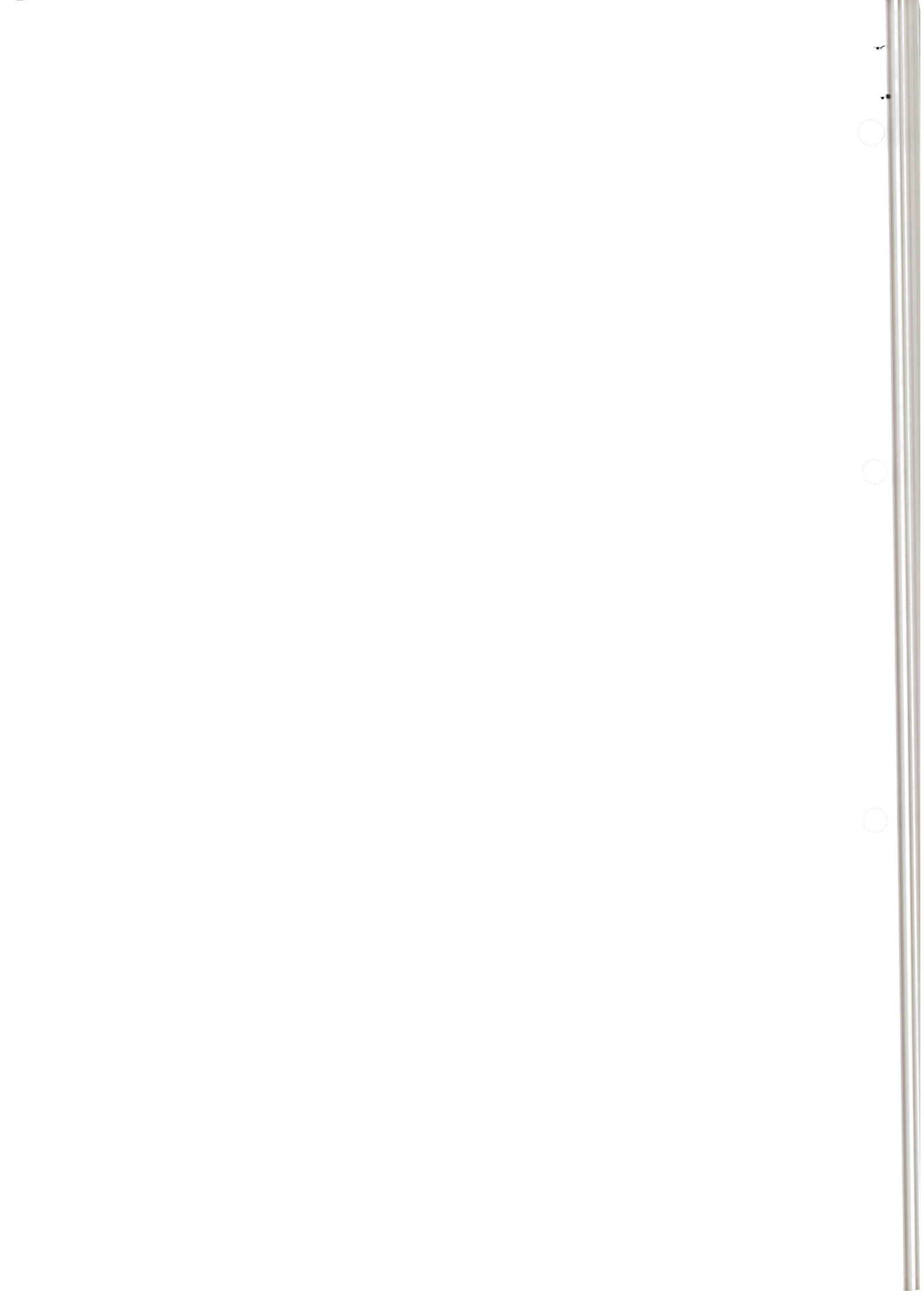
KENYA ORDNANCE FACTORIES CORPORATION
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Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
	<p>The corporation has not established and audit committee contrary to Section 73(5) of the Public Finance Management Act, 2012 which states that every national government public entity shall establish an audit committee whose composition and functions shall be as prescribed by the regulations. Although the management explained that the Board was in the process of establishing an audit committee and that the names have been proposed awaiting approval to commence work, no documentary evidence was availed in support of this or an indication as to when then process shall be completed. Consequently, the management is in breach of the law.</p>	<p>The Corporation concurs that during the year under review FY 2016/17 an audit committee had not been established as required by the Public Finance Management Regulations, 2015. This matter was presented to the Board and during the 54th Board of Directors meeting held on 7 Jan 18 the Board Members approved establishment of all Board Committee including Audit Committee. As a follow up on the same, a meeting was called for on 26 and 27 Mar 18 by the Principal Secretary Ministry of Defence as part of Familiarization tour and to deliberate on nominations to these committees members. This meeting attended by the Principal Secretary, Managing Director, Maj Gen (Rtd) P Awitta, Maj Gen (Rtd) M O Oyugi and KOFC Managers proposed names for these committees which was tabled during the 55th BoD and was approved and adopted.</p> <p>Remarks: Appointment concluded and scheduled meetings on course.</p>	<p>Managing Director.</p>	<p>Resolved.</p>	<p>30 Jun 18</p>
	<p><u>Failure to Observe One Third Staff Establishment Rule.</u></p>	<p>Audit review of the payroll for the month of June</p>	<p>Board of Directors,</p>	<p>Outstanding</p>	<p>30 Sept 2019</p>



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Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
	<p>Audit of the payroll for the month of June 2017 showed that Kenya Ordinance Factories Corporation had a staff establishment of 267(two hundred and sixty seven) other permanent and pensionable staff out of whom 130(one hundred and thirty)or 49% were from the dominant ethnic community leaving 137(one hundred and thirty seven)or 51% from other communities as analyzed below</p> <p>This is contrary to section 7 (1) and (2) of the National Cohesion and Integration Act, No 12 of 2008 which requires all public establishments to seek to represent the diversity of the people of Kenya in employment of staff and that no public establishments shall have more than one third of its establishment from the same ethnic community.</p> <p>Consequently, the management has contravened the one third ethnic diversity rule on staff establishment.</p>	<p>2017 showed that KOFC had staff establishment of 267 of which 130 (49%) are from the same ethnicity leaving only 137 (51%) from other ethnicities. The management concurs that the locals constitute the majority which is contrary to Section 7 (1) and (2) of the National Cohesion and Integration Act, 2008.</p> <p>Interrogation on the tribal imbalance revealed that this is an historical challenge which requires a longer period to correct. This is because the current staff strength were employed before the said Act came into force. In addition, the staff cannot be transferred or deployed to other Ministries/Departments within the Public Service since they are directly employed by the Corporation. This means that immediate compliance with the Act would require layoff of the employees which is against Kenya Labour Laws.</p> <p>Taking into account the dilemma the Corporation is in of either laying off the Staff to Comply with the 1/3 requirement and thereby violate Labour laws, the Corporation's only available options are;</p> <p>a. Recruitment of new personnel based on factory expansion to uphold 1/3 rule forthwith.</p>	<p>Managing Director and Human Resources and Administration Manager</p>		



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Reference No.	Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Timeframe
		<p>However this will take some time depending on availability of vacancies.</p> <p>b. Staff leaving the Corporation over the years either through natural attrition or resignation/dismissal shall be replaced in compliance with the Act.</p> <p>In view of the aforementioned, it is our humble request that this should not have been included in the Auditor-General report for the Financial Year ending 30 June 2017 and the Management be given time to comply with the one third Staff Establishment Rule through the above recommended ways. Although this may take much longer period and considering its genesis to be historical, the Corporation is committed to comply with Section 7 (1) and 2 of the National Cohesion and Integration Act, 2008. In addition, the Corporation has already complied with the Board of Directors and Senior Managements which is a clear indication of the Corporation commitment.</p> <p>Remarks: To be deliberated by the Board of Directors.</p>			



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Confirmation of amounts received by Kenya Ordnance Factory Corporation as at 30 th June 2018							
Amounts Disbursed by Ministry of Defence as at 30 th June 2018							
Reference Number	Date Disbursed	Recurrent (KShs) (A)	Development (KShs) (B)	Inter – Ministerial (KShs) (C)	Total (KShs) (D)=(A+B+C)	Amount Received by KOFC as at 30 June 2018 (KShs) (E)	Difference (KShs) (F)=(D-E)
00346	04.08.2017	135,000,000.00	-	-	135,000,000.00	135,000,000.00	-
	11.01.2018	77,300,000.00	-	-	77,300,000.00	77,300,000.00	-
Payroll	July	15,791,197.00	-	-	15,791,197.00	15,791,197.00	-
Payroll	August	16,340,163.10	-	-	16,340,163.10	16,340,163.10	-
Payroll	September	18,458,513.90	-	-	18,458,513.90	18,458,513.90	-
Payroll	October	17,409,309.90	-	-	17,409,309.90	17,409,309.90	-
Payroll	November	17,361,866.90	-	-	17,361,866.90	17,361,866.90	-
Payroll	December	17,671,618.65	-	-	17,671,618.65	17,671,618.65	-
Payroll	January	18,000,238.60	-	-	18,000,238.60	18,000,238.60	-
Payroll	February	18,066,809.60	-	-	18,066,809.60	18,066,809.60	-
Payroll	March	17,190,516.90	-	-	17,190,516.90	17,190,516.90	-
Payroll	April	17,270,664.50	-	-	17,270,664.50	17,270,664.50	-
Payroll	May	17,321,900.65	-	-	17,321,900.65	17,321,900.65	-
Payroll	June	17,160,113.20	-	-	17,160,113.20	17,160,113.20	-
Total		420,342,912.90	-	-	420,342,912.90	420,342,912.90	=

I confirm that the amounts shown above are correct as of the date indicated.

Head of Accounts Department:

Name 23741 CPA Judith Juma

Date 14/03/2019

Signature

Juma

