

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

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## REPORT ON THE FINANCIAL STATEMENTS

### Qualified Opinion

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

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

### Basis for Qualified Opinion

#### 1. Property, Plant and Equipment

##### 1.1. Lack of Ownership Documents

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

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

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

- (i) The Kapsabet plot was allocated to an individual and the Corporation has engaged the services of a legal firm to pursue ownership with the Kapsabet lands board. However, there was no documented outcome of the process availed for audit review.

- (ii) The management undertook a mapping exercise together with Kenya Railways Corporation in regard to Nanyuki plot and then requested Kenya Railways Corporation to fast track registration of the parcel.
- (iii) The management has been following up with the National Lands Commission for processing of title deed of the Nyahururu plot.

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

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

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

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

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

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

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

As similarly reported in the previous years, the trade and other receivables balance of Kshs.105,506,396 as at 30 June 2018 includes an amount of Kshs.24,816,297 relating to various private debtors which have been outstanding since the year 1994. The receivables balance also includes an amount of Kshs.10,234,202 relating to claims receivable and Kshs.20,357,732 relating to government debtors which has similarly remained outstanding for a long period of time. As disclosed in Note 21 to the financial statements, other receivables balance of Kshs.83,584,817 includes rent receivable from Uchumi Supermarkets Limited amounting to Kshs.34,997,254 as at 30 June 2018. However, information available indicates that the Supermarket is facing financial difficulties leading to existence of material uncertainty about its ability to continue as a going concern and thus making recoverability of the rent receivable of Kshs.34,997,254 doubtful.

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

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

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

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

### **Key Audit Matters**

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

### **Other Matters**

#### **Financial Performance**

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

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

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

### **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them.

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

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

### **Conclusion**

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

### **Basis for Conclusion**

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

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

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

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

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (Accrual Basis) and for maintaining effective internal control as management determines is necessary to

enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

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

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

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

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

### **Auditor-General's Responsibilities for the Audit**

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Corporation to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



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

**Nairobi**

**24 April 2019**