

REPORT OF THE AUDITOR-GENERAL ON NATIONAL OIL CORPORATION OF KENYA LIMITED FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of National Oil Corporation of Kenya Limited set out on pages 10 to 50, which comprise the statement of financial position as at 30 June 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by Deloitte and Touche, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of National Oil Corporation of Kenya Limited as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, 2015.

Further, as required by Article 229(6) of the Constitution, based on the procedures performed, 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 Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Oil Corporation of Kenya Limited 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.

Emphasis of Matter

Going Concern

I draw attention to Note 8 to the financial statements which describes the rationale upon which the directors have prepared the financial statements on a going concern basis.

The Corporation incurred a loss of Kshs.62,455,000 (2015/2016 Kshs.808,168,000) during the year and had accumulated losses of Kshs.1,283,690,000 as at 30 June 2017 (2016 Kshs.1,221,235,000). In addition, the Corporation is in a net current liability position of Kshs.844,814,000 (2016 Kshs.955,806,000). These conditions, alongside other matters set out in note 8, indicate the existence of a material uncertainty which may cast significant doubt on the Corporation's ability to continue as a going concern.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, were of most significance in the audit of the financial statements. There were no Key Audit Matters to report in the year under review.

Other Matter

1. Provision for Inventories

The financial statements reflect provisions for inventory totalling Kshs.969,965,000 (2015/2016 Kshs.882,289,000), as disclosed in note 23. The provisions relate to book values of inventory held at Kenya Petroleum Refineries Limited (KPRL), inventory losses at Kenya Ports Authority (KPA) and Kenya Pipeline Company (KPC), and other inventory reconciling items. Although full provision has been made in the financial statements, and management has indicated that a revenue consultant has been engaged to review the long outstanding reconciling items, these long outstanding items are yet to be cleared from the books.

2. Trade and Other Receivables

The net trade and other receivables reflects a balance of Kshs.1,516,716,000 (2015/2016 Kshs.1,041,827,000), as disclosed in note 24. Included in this balance is Kshs.52,587,560 relating to customs duty on products sold to Defence Forces Cooperative (DEFECO) and other customers, which is recoverable from Kenya Revenue Authority (KRA) and KPC tariffs charged on shippers. As reported previously, the duty which arose in 2013/2014 financial year, and which according to management has been provided for fully in the financial statements, has not been reconciled to the various inventory deliveries to facilitate recovery.

3. Allotment of Shares

The financial statements of the Corporation reflect funds awaiting allotment of shares amounting to Kshs.500,000,000, as disclosed in Note 27. As pointed out in 2015/2016 audit report, these are funds received from the Government of Kenya in 2009 as share capital injection. As at the time of concluding this audit, the process of increasing the share capital had not been finalized, despite significant duration having lapsed since injection of the funds.

Other Information Included in the Annual Report

The directors are responsible for the other information, which comprises the report of directors as required by the Kenyan Companies Act, 2015. The other information does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed on the other information that I obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting. The directors are responsible for overseeing the Corporation's financial reporting process.

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

Those charged with governance are also responsible for overseeing the Corporation's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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 of Kenya. 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 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.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' 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. 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.
- 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 of the entities or business activities to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the directors 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 to the directors a statement that I have complied with relevant ethical requirements regarding independence, and communicate to them all relationships

and other matters which may reasonably be thought to bear on my independence, and where applicable, related safeguards.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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 Corporation, so far as appears from the examination of those records;
- (iii) The Corporation's financial statements 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.



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

Nairobi

09 January 2018