REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL
Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

KENYA NATIONAL TRADING CORPORATION LIMITED

FOR THE YEAR ENDED 30 JUNE, 2025

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REPORT OF THE AUDITOR-GENERAL ON KENYA NATIONAL TRADING CORPORATION LIMITED FOR THE YEAR ENDED 30 JUNE, 2025

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

A. Report on Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements;

B. Report on Lawfulness and Effectiveness in the Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure the Government achieves value for money and that such funds are applied for the intended purpose; and,

C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

A Qualified Opinion is issued when the Auditor-General concludes that, except for material misstatements noted, the financial statements are fairly presented in accordance with the applicable financial reporting framework. The Report on Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management and Governance.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012, and the Public Audit Act, 2015. The three parts of the report when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya National Trading Corporation Limited set out on pages 1 to 64, which comprise of the statement of financial position as at 30 June, 2025 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 Limited as at 30 June, 2025 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 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance totalling Kshs.3,106,186,223 as at 30 June, 2025. However, the following anomalies were noted:

1.1 Unsupported Variances

As disclosed in Note 19 to the financial statements, the property, plant and equipment balance includes an amount of Kshs.2,096,928,000 relating to land. However, the Nakuru plot valued at Kshs.35,000,000 as per the assets register was reported as Kshs.32,928,000 in the financial statements resulting in an unexplained variance of Kshs.2,072,000. In addition, Loita street plot valued at Kshs.485,000,000 was disclosed as Kshs.454,537,460 and deducted from the Property, Plant and Equipment (PPE) schedule resulting in an unexplained variance of Kshs.30,462,540. Further, a balance of Kshs.485,000,000 was deducted from retained earnings as provisions. Management did not explain or provide disclosure for the varying amounts. In addition, Note 19 to the financial statements excludes Kshs.14,643,747 in respect of work in progress. However, Management did not provide explanation nor indicate where the capitalized amount was transferred to.

1.2 Land Without Ownership Documents

The property, plant and equipment net book value balance of Kshs.3,106,186,223 includes land valued at Kshs.2,096,938,000. The value for land further includes three (3) parcels of land located in Nairobi, Nyahururu and Kapsabet whose ownership documents were not provided.

In addition, other records indicated that there is an unresolved dispute between the Corporation and other parties in regard to ownership of parcels of land of undisclosed size and value in Bungoma and Nakuru Counties.

1.3 Unsupported Diminution of Land Value

As previously reported, Management made a provision for loss amounting to Kshs.520,000,000 in respect to parcels of land located in Loita Street, Nairobi and in Nakuru County.

The Management disclosed that the plot on Loita Street, Nairobi was irregularly surrendered to the Commissioner of lands and that a section of the plot of land in Nakuru has been encroached upon and registered in the name of a third party. Although, the Management explained that investigations by various agencies are ongoing, the current status of the investigations was not provided for review. In addition, approval for the provision, by the Board of Directors and The National Treasury was not provided for audit. It was there not possible to confirm whether the loss in asset value amounting to Kshs.520,000,000 resulting from the adjustment was valid and reasonable. In addition, the property, plant and equipment vale omitted the balance and provision for this piece of land in both the prior and current period.

Further, the revalued balance does not include one of the plots in Nakuru that had a carrying value of Kshs.32,928,000 before valuation and therefore no justification for its provision.

In the circumstances, the ownership, valuation and completeness of the property, land and equipment balance of Kshs.2,096,938,000 could not be confirmed.

2. Long Outstanding Trade and other Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.848,225,462 as disclosed in Note 25 to the financial statements. Review of trade and other receivables records revealed an amount of Kshs.86,319,756 has remained outstanding for more than three (3) years. Further, included in this amount is Kshs.44,726,594 being rent receivable from Uchumi Super Markets Limited which was declared insolvent.

In the circumstances, the accuracy and recoverability of trade and other receivables Kshs.86,319,756 could not be confirmed.

3. Unsupported Transfers from the Government

The statement of comparison of budget and actual amounts reflects transfers from the Government of Kshs.1,500,000,000. The same amount has been reflected under statement of changes in net assets as recurrent grants. However, Management did not provide documents showing the request and receipt of the funds.

In the circumstances, the accuracy and completeness of the transfers of funds of Kshs.1,500,000,000 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya National Trading Corporation Limited Management in accordance with ISSAI 130 on the 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.

4. Material Uncertainty in Relation to Going Concern

The statement of profit/loss and other comprehensive income reflects a loss of Kshs.4,196,988,479 (2024: Kshs.3,855,867,950). Further, the Corporation's current liabilities balance of Kshs.8,844,280,038 exceeded its current assets balance of Kshs.2,937,077,435 resulting to a negative working capital of Kshs.5,907,202,603. The Corporation may not be able to meet its short-term obligations.

Management has not disclosed with adequate details in the financial statements indicating that material uncertainty exists and measures taken to mitigate the same.

In the circumstances, this casts significant doubts on the Corporation's ability to continue as a going concern.

My opinion is not modified in respect of this matter.

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final income budget and actual on comparable basis of Kshs.1,126,120,496 and Kshs.(2,073,031,770) respectively, resulting to an under-performance of Kshs.3,199,152,266 or 284% of the budget. However, the Corporation spent a total of Kshs.2,123,956,709 against actual receipts of Kshs.(2,073,031,770) resulting to an over-utilization of Kshs.4,196,988,479 or 203% of the receipts.

The under-performance affected the planned activities and may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of this matter.

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 effect of the matters described in the Basis for Qualified Opinion/Material Uncertainty Related to Going Concern section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on the Financial Statements, Emphasis of Matter, Other Matter and Report on Lawfulness and Effective in the Use of Public Resources. The issues as detailed in Appendix I remain unresolved.

Other Information

The Management are responsible for the Other Information set out on page iii to xxxviii which comprise of Key Entity Information, The Board of Directors, Key Management Team, Fiduciary Management, Fiduciary Oversight Arrangements, Chairman's Statement, Report of the Director General, Statement of Performance against Predetermined Objectives, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Directors and Statement of Directors Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the Corporation's 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, 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.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance conclusion thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in the Use of Public Resources 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

1. Stalled Construction of Karatina Warehouse

The Corporation entered into a contract with a contractor for proposed renovation works of the Corporation's Karatina warehouse at a contract sum of Kshs.17,090,442. The works commenced on 27 February, 2023 and were to be completed on 25 August, 2023. Further, according to the project status report of October 2023, the certified amount of work done is Kshs.10,158,560. However, physical inspection carried out in June 2025 revealed that the project had stalled and the contractor was no longer on site. Further, the warehouse was inaccessible since it was locked and explanation provided was that the contractor had the keys.

In the circumstances, value for money for the delayed project may not be realized. In addition, it may attract additional costs in case of any deterioration.

2. Long Outstanding Trade and other Payables

The statement of financial position reflects trade and other payables balance of Kshs.1,130,492,736 as disclosed in Note 38 to the financial statements. Included in the balance is an amount of Kshs.933,366,525 which had been outstanding for a period of more than one (1) year.

In the circumstances, business operations, liquidity and livelihoods of the creditors and by extension their beneficiaries may be affected negatively due to failure by the Corporation to pay the amounts due to them.

3. Tenants without Lease Agreement

Review of the tenant's records revealed six (6) tenants without lease agreement owed the Corporation Kshs.773,513 and other seven (7) tenants whose lease period had lapsed had unsettled payment of Kshs.2,076,513. The thirteen (13) tenants may not be legally obligated to pay rent or may challenge eviction leading to legal disputes and loss of public funds.

In the circumstances, the recoverability of rent arrears of Kshs.2,280,026 for tenants without valid leases could not be confirmed.

4. Composition of the Board Committee

Review of Board of directors' records revealed that membership to Board committees exceeding a third (1/3) of full board composition of nine (9) members. Ideally, each committee should have three (3) members. However, the audit and risk committee, technical matter committee and finance and strategy committee each has five (5) members while human resource and administration committee has four (4) members. Further, one (1) of the directors sits in all four (4) of the committees. This was contrary to Circular No. OP/CAB.9/1A issued by the office of the President dated 11 March, 2020 which states that the number of members to any committees should be no more than 1/3 of the full board to obviate the risk of a committee conducting its business within the framework of a full board structure.

In the circumstances, the Board was in breach of the regulation.

5. Unauthorized Over-Expenditure

The statement of comparison budget and actual amounts reflects that the Corporation spent Kshs.2,123,956,709 against actual receipts of Kshs.(2,073,031,770) resulting to an over-utilization of Kshs.4,196,988,479 or (202%) of the receipts. This was contrary to Section 12 of the State Corporations Act, Cap 446 which requires State Corporations not to incur any expenditure not in annual estimates without prior approval in writing of the Cabinet Secretary and the Treasury.

In the circumstances, Management was in breach of the law.

6. Unsettled Credit Notes

As previously reported and as per the letter ref: KNTC/KCB/01/07/CORSP/VOL 3(250), the Corporation engaged all suppliers of imported commodities and agreed with them to raise credit notes equivalent to USD 7 per jerrican of cooking oil and USD 80 per metric ton of rice. Review of the records revealed two (2) of the suppliers were yet to settle credit notes worth of Kshs.1,669,431,042.

In the circumstances, failure to have the credit notes settled may lead to loss of revenue.

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standards require 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 comply 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 audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Weakness in Inventory Control and Stores Management

The statement of financial position reflects inventories balance of Kshs.243,010,034 as disclosed in Note 24 to the financial statements. Excluded from this balance is Kshs.20,955,191 relating to damaged inventory. Review of stock sheets provided for audit revealed that some stocks of various categories were lying in various depots in damaged state due to overstocking, poor inventory packaging and mis-handling.

In the circumstances, the effectiveness of the controls on inventory management could not be confirmed.

2. Untagged Assets

Review of the fixed assets register revealed that furniture and fittings were purchased at a cost of Kshs.13,994,741 while machinery and office equipment were purchased at a cost of Kshs.17,427,714 as at 1 July, 2022. Physical inspection of the assets showed that most of the purchased items had not been tagged, an exercise that was long overdue.

In the circumstances, the effectiveness of internal controls on assets management could not be confirmed.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, risk Management and overall 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 LEGAL AND REGULATORY REQUIREMENTS

Conclusion

As required by the Companies Act, 2015, I report, based on my 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. The information given in the Directors' report on pages xxxvi is consistent with the financial statements; and

iii. The auditable part of the Directors' remuneration report on pages 24 has been properly prepared in accordance with the Companies Act, 2015.

Basis for Conclusion

The Companies Act, 2015 requires that I report on the legal or regulatory requirements, or on performance information disclosed. These matters require expressing a separate opinion as to Company's, compliance with laws and regulations. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of the Management and Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for maintaining effective internal controls 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 controls, 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 going concern and using the going concern basis of accounting unless Management is aware of the intention to cease operations.

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 comply with the authorities which govern them and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the Corporation's financial reporting process, reviewing the effectiveness of how Management 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

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards of Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. 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.

In conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way. In addition, I consider the entity's control environment 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.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/. This description forms part of my auditor's report.

FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

11 December, 2025

Appendix I

Unresolved Prior Year Matters

No.	Observation
	Basis of Adverse Opinion
1	Inaccuracies in the Financial Statements
2	Variance in the Trial Balance
3	Restated Amounts
4	Unreconciled Bank and Cash Balances
5	Long-Outstanding Trade and other Receivables
6	Unsupported Selling Price
7	Unconfirmed Cost of Sales
8 8.1 8.2	Property, Plant and Equipment Land without Ownership Documents Unsupported Diminution of Land Value
9	Unsupported and Irregular Foreign Travel Expenditure
10	Material Uncertainty Related to Going Concern
	Emphasis of Matter
1	Trade and other Payables
2	Budgetary Control and Performance
	Report on Lawfulness and Effectiveness in the Use of Public Resources
1	Identification, Collection, and Accounting for Revenue Unsettled Credit Notes
2 2.1 2.2 2.3 2.4	Prescription on Board and Chief Executive Officers' Terms of Service and Entitlements Unapproved Board Meetings Composition of Board Committees Unapproved Board Expenses Irregular Payment of Allowances
	Report on Effectiveness of Internal Controls, Risk Management and Governance
	Weakness in Inventory Control and Stores Management