NATIONAL OIL CORPORATION OF KENYA

AUDIT INVESTIGATION REPORT

REVIEW OF THE KPA/NOCK FUEL SUPPLY CONTRACT

PREPARED BY

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PRESENTED TO

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CC

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DATE

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Introduction

The contract commenced in September 2016 to run for three years. The arrangement is such that National Oil supplies fuel to various KPA stations on a consignment basis where the consignments are to be managed by NOC.

The KPA depots are managed by National Oil through a contracted firm, Great White Investment, who are also on a 3 year contract. The firm is to receive fuel deliveries from NOC depots to the fuel storage tanks at the site and also to oversee the dispensing of the fuel to various KPA fuel consumer assets/equipment.

The contract costs are:

- Hire and operation of Fuel distribution bowser within KPA depots-Ksh 250,000 per month per bowser.
- Site management Ksh 2.4 per litre
- Transport cost from depot to KPA gate – Ksh 0.69 per litre

KPA Inland Container Depot Nairobi Operations:

The firm is to record fuel consumption on a daily basis by taking opening and closing metre readings, opening and closing fuel tank dips and submit the same to NOC TM CI every day.

At the consignment station, when a KPA vehicle comes for fuelling, a requisition form that is duly filled by a KPA representative is presented to the Great White's personnel detailing the quantity needed and the vehicle particulars before any fuel dispensing is started.

The form is then signed between the driver and the Great White Investment employee after the dispensing process and the signed form is taken back to KPA Nairobi office and a copy remains with the station manager.

A stock take is conducted at the end of the month attended by NOC representative and the station manager. Thereafter, a reconciliation is done between opening and closing meter readings for the month, the requisitions records and the dips records to determine the quantity of sales for the month. The station manager forwards the report to NOC TM CI for verification before the same is forwarded to KPA after which the agreed sales quantity for the month is invoiced by NOC credit control.

KPA then pays 1 month from date of receiving the invoice.

NOC then pays for station management within credit period of 1 month after billing. ……..as per contract.

Findings from site visit on 7th march 2017

1. The pump attendant/manager at the station has not signed any contract with his employer, Great White Investment. This exposes the Corporation as the said staff is in charge of the fuel on behalf of Nock through the contracted management company.
2. The pump attendant should take fuel tanks dips at the start and end of each day. On this particular date, he had not taken the morning dips for the fuel tank.
3. From the dip records, we noted a trend where a closing dip reading of a particular day formed the opening dip of the next day. The risk here
4. The station manager does not maintain written records of fuel receipts; has no delivery/offloading books to record the activities.
5. The station has no receiving stamp

6. Manager does not keep fuel sample retentions as required.
7. Opening and closing pump readings have no gaps except for requisitions relating to generator where pump readings and dispatch are not consistent.
8. On review of fuel deliveries, all dispatches from NNT were received at the ICD station.
9. On review of sales, all sales recorded in the sales register were reported in the bi monthly sales summaries except fuel requisitions for vehicles registered under Mombasa office. Each depot accepts invoice for the own consumption only.
10. Fuel physical delivery dates and system receipt dates were noted to be significantly apart as shown in the following examples.

Transaction date/System Receipt Date	Product	QTY	Shipment No.	Delivery Date
31-Oct-2016	AGO	10,000	80704	25/Oct/2016
31-Oct -2016	PMS	2,000	80366	03/Oct/2016
27- Feb – 2017	AGO	10,000	83189	04/Feb/2017

General Observations:

1. The corporation has other CI sites where the model of management adopted is where a station manager is employed by the Corporation. In this case, the corporation has adopted a new model of contracting the services of managing the site.
2. The cost of the initial model – engaging a station manager seems effective as the corporation would incur a wage of Kshs. 50,000 as opposed to the option of contracting out the services where a part from other costs the corporation pays the contractor at a rate of Kshs. 2.40 per litre of product sold.
3. From the analysis provided by Finance, the following is the position of product losses for KPA between October 2016 and January 2017:

National Oil Corporation Of Kenya					
KPA Losses Analysis as at 31st Jan-2017					
	Actual Sales Volumes		Month	Product	
KPA Container Terminal	PMS	AGO		PMS	AGO
	290	11,355	Oct-16	28	1,069
	0	11,645	Nov-16	(289)	128
	535	11,000	Dec-16	293	82
	140	12,140	Jan-17	(8)	252
Sub-total	965	46,140		24	1,531
KPA Mombasa	56,726	374,750	Oct-16	1,098	8,253
	54,442	577,701	Nov-16	1,184	7,721
	46,909	545,987	Dec-16	591	6,268
	55,855	419,025	Jan-17	721	3,250
Sub-total	213,932	1,917,463		3,594	25,492
Total Total Losses	214,897	1,963,603		3,618	27,023
Normal loss - 0.5% of actual total sales				1,070	9,587
Abnormal Loss				2,549	17,435

4. Statistics available from the oil loss committee indicate that for the period between Dec 2016 and Feb 2017, the site managed by the contracted service provider experienced more product loss to the tune of Kshs. 500,000 compared to Kengen's loss of Kshs. 275,000 where NOC has engaged a station manager and NOC's transportation network is used to ferry product.
5. The contract for KPA has a minor print error showing 2 years instead of 3 years.

Recommendations:

1. The Corporation should establish the full extent of the losses and expedite the steps to recover the same as provided in the contract.
2. The stations should be supplied with offloading booklets to record particulars of fuel received. A sample should also be maintained for verification in case quality complaints arise later.
3. For better stock management and reconciliation, the Corporation should embrace an automated/real time stocks movement in the system.
4. The station manager should be advised on the need to take actual dips in the morning and evening since the statistics form a basis of analysing causes of stock losses.
5. The Corporation should carry out a cost/benefit analysis on the two models of CI station management and make a decision on the better model to employ.
6. The print error in the contract should be rectified immediately to remove confusion.

Conclusion/Recommendations:

1. The CI manager to expedite claim for product losses for all CI sites.
2. Any losses that are disputed the client should be recovered from the staff responsible for the operations.

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