



NATIONAL OIL CORPORATION OF KENYA

AUDIT INVESTIGATION REPORT

AUDIT REPORT ON KPA MOMBASA STOCKS MOVEMENT

PREPARED BY

INTERNAL AUDIT DEPARTMENT

PRESENTED TO

CHIEF EXECUTIVE OFFICER

CC

DATE

OCTOBER 2018

A. INTRODUCTION

Following reports that there has been loss of product at the KPA stock point, the CEO issued a memo to Internal Audit department requesting for an audit of stocks movement w.e.f 01st October 2016 to 30th September 2018. The audit review is to cover specifically product delivered to KPA through Great White Investment Limited, a logistics and transport company who, through a contract, provides transportation and site management services, to KPA Kapenguria, ICD Nairobi, Kipevu Container Terminal and any other station within KPA.

The following report provides details of stocks transactions for the period October 2016 when the account was commissioned to 30th September 2018.

B. Background INFORMATION

In August 2016, NOC won a tender to supply Kenya Ports Authority (KPA) with petroleum products – AGO & PMS - for a period of three years. For ease of management/operations, NOC engaged a contractor, Great white Investments Ltd, to run the KPA fuel terminals for a period of three years – 01st October 2016 to 30th September 2019. In this arrangement, NOC supplies fuel to various KPA stations on a consignment basis which consignments are to be managed by Great White Investment Limited. The firm is to receive fuel deliveries from Nock depots to the fuel storage tanks at the site for them to oversee the dispensing of the fuel to various KPA fuel consumer assets.

The contract costs are:

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

The contract has been running as above until beginning of May 2018, when KPA purchased their own fuel bowsters to be used in the distribution of fuel to the various KPA Mombasa sites.

Great White Investment Limited are the sole managers of the consignment stations as shown in the detailed Scope of Works in sections 5, 6 and 7 of the contract. **Excerpt attached for reference.**

C. OBSERVATIONS

i. System Stocks Management

Stocks in the hands of Great White are still owned by NOC until dispensed to KPA equipment. To enable tracking of fuel at the consignment stations and KPA tanks, several system warehouses were created as follows:

- i. KPA Kapenguria (650)
- ii. KPA Mobile Bowser (651)
- iii. KPA Internal Container depot (652)
- iv. KPA Container Terminal (653)
- v. KPA SOT-Tug Boat (655)

Stocks are transferred from NOC hospitality depots to the above warehouses from where distribution to the KPA sites is done by Great White.

ii. Physical stocks Management

- The firm (Great White Investment Limited) should, on a daily basis, record fuel consumption by taking opening and closing meter readings, opening and closing fuel tank dips and submit the same to Noc TM CI.
- At the consignment station, when a KPA vehicle comes for fueling, 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 done.
- The form is then signed by the driver and the Great White Investment employee after the dispensing process and the signed form is taken back to KPA office and a copy remains with the station manager.
- A stock take is conducted at the end of the month attended by a Nock representative and the station manager. Thereafter, a reconciliation should be 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.

iii. Billing

A summary of KPA fuel consumption is done twice a month to enable billing. The station manager forwards the report to Nock TM CI for verification before the same is forwarded to KPA after which the agreed sales quantity is invoiced by Nock credit control. Billing is done in two parts, i.e. billing of non-KPA cash customers and billing of deliveries to KPA.

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

Noc then pays for station management within a credit period of 1 month after billing as per the contract terms.

D. WORK DONE

1. Discussed with the Acting Terminal Manager at Mombasa currently on the flow of product to and from KPA Kapenguria Mombasa.
2. Discussed with the CI Manager on the distribution of responsibilities.
3. Checked Job Descriptions for all parties in the chain of service delivery to CI.
4. Discussed the responsibilities expected of the Station Manager at KPA Kapenguria
5. Obtained stocks movement from KPA Kapenguria, and the same documents sent to Finance stocks accountant and CI manager.
6. Generated inventory transactions from Oracle for the area under investigation, i.e. Inventory Delivery Report.
7. Obtained NOC documents showing deliveries to customers for confirmation against Oracle figures.
8. Interrogated relevant records in oracle to understand the order and shipment statuses to close out stocks movements in the system and physically.

E. FINDINGS

Ordering

1. Great White Investment Limited do not have a physical order book through which to place orders for product from the NOC Operations Assistant. Instead, they send an order verbally or by SMS. This is risky as it lacks trail credibility.

2. Once an order is received, there is no counter confirmation by any other staff at the NOC Mombasa office. This is poor/lack of, segregation of duties.
3. Before the Oracle upgrade done on 14 Oct 2017, all CI orders were generated in Oracle through an Inter-org transfer, after the Oracle upgrade all CI orders are done through an Internal Sales Order (ISO).
 - Inter-Org transfers were done by the Terminal Manager.
 - ISOs are done by the TM CI and approved by the CI Manager.

Loading and dispatch

1. Vehicles loaded from hospitality depots were and are not furnished with NOC delivery notes immediately. Instead, product is delivered to the customer – Great White - with the Loading Authority and delivery documents from the hospitality depots e.g. Tecaflex, Oilibya and VTTI. The NOC delivery note is generated much later and taken to the customer for confirmation of receipt. It is possible that not all delivery notes were acknowledged by Great White Investment Limited because they were either late or never raised at all!
2. When fuel is received at KPA station, the station manager should have an offloading book in which to record all fuel received and its parameters. **The KPA station did not have offloading booklets but instead maintained a black book to record receipts.** The record kept in the black book was also **incomplete** as noted in a delivery ref. 22913660/84 which had 25,000 AGO and 10,000 PMS but only AGO was recorded as having been received.
3. While deliveries from hospitality depots are received by the customer, the shipping transactions in Oracle were not done on the same day. Transactions were noted where the shipping transactions were completed **two months** after product delivery. This is negligence of duty in the part of officer(s) responsible for shipping orders!
4. For the transfer of product from one system warehouse to another, product has to be received in the receiving warehouse for the transaction to be complete. Otherwise, the product remains in 'in-transit' state. As at **30th June 2018**, a total of **1,848,165 litres** of AGO and **125,892 litres** of PMS were still showing 'in-transit' to warehouse 650.
5. When dispatching product from a hospitality depot, sometimes a vehicle other than the one indicated on the loading authority was used. This creates confusion when completing the transactions.
6. Upon attempt to establish the reason for product not duly receipted in the respective warehouses, it was noted that some orders were cancelled/backordered in Oracle despite having already been loaded at the hospitality depots, and new orders raised. The responsible parties did not ensure a "return to Stock" was done, this makes it very difficult to authenticate stocks returned to the warehouses. Further, the firm receiving the products did so with invalid documents thereby jeopardizing the traceability of all products delivered.

Dispensing of fuel

7. KPA introduced their own bowsers in May 2018 but it is not clear how the contract with Great White Investment limited has been affected by these changes. There is need to consider the implication of these changes

Reconciliations.

8. As at 30th June 2018, there was a variance between the physical and system (book) stocks of AGO at Mombasa KPA stations as follows;

Book stocks:	2,307,236.20
Actual Physical Stocks:	117,667.00
Variance	(2,189,569.20)

From our review, the above variance was caused by various things including the following:

- a). Stocks in-transit into the KPA warehouses (650, 651, 653, and 655). As at 30th June 2018, a total of 1,848,165 litres of AGO and 125,892 litres of PMS were still in transit to warehouse 650.
- b). Product received at KPA warehouses and physically sold to KPA and not yet shipped as sales in the system as tabled below:

Warehouse	Physical sales as per great white (AGO ltrs)	Shipped sales quantity as of 30/06/2018(AGO ltrs)	Variance(AGO ltrs)	Remarks
KPA Kapenguria(650)+ Container terminal(653)	3,252,269	3,145,476.00	106,793.00	204,466.65 ltrs for June 2018 sales shipped as July 2018.
KPA service station	1144127	803289	340,838.00	204,466.65 ltrs for June 2018 sales shipped as July 2018.
Bowser(651)	6,292,091.00	6,097,705.00	194,386.00	355, 511 ltrs for June 2018 sales shipped as July 2018.
Tug boat(655)	4,067,009.00	3,628,380.00	438,629.00	155,433 for June 2018 shipped in July 2018. Other explanation below(*)
Total			1,080,646.00	

- c). Some product totaling to 60,000 ltrs destined for KPA mobile bowser was shipped directly from hospitality depots to mobile bowser warehouse (651). Ideally this product should be shipped to warehouse 650 then to 651 based on actual consumption. By shipping directly to 651, this amounts to double receipting since this amount is not deducted from actual consumption at month end!

Description	Transaction Quantity	Transfer Org	Delivery No.	Status
Automotive Gas oil (AGO)	10,000	30/09/2016	80334	Tecaflex to Bowser - Erroneous Transaction
Automotive Gas oil (AGO)	10,000	30/09/2016	80336	Tecaflex to Bowser - Erroneous Transaction
Automotive Gas oil (AGO)	10,000	30/09/2016	80340	Tecaflex to Bowser - Erroneous Transaction
Automotive Gas oil (AGO)	10,000	30/09/2016	80341	Tecaflex to Bowser - Erroneous Transaction
Automotive Gas oil (AGO)	10,000	30/09/2016	80344	Tecaflex to Bowser - Erroneous Transaction
Automotive Gas oil (AGO)	10,000	30/09/2016	80345	Tecaflex to Bowser - Erroneous Transaction
Total	60,000			

d). It was also noted that some product totaling to 64,000 ltrs destined for the Tug boats was loaded in trucks from the hospitality depots. These are doubtful transactions since tug boats are only fueled through the pipeline. See table below:

Item	Sub-invent ory	Transfer Sub-inventory	Transf er Org	Owning Party	Transact ion Date	Order Numbe r	Transactio n Quantity
AGO-NOC	TK-KKD-AGO		711	655-655 KPA SOT-Tug Boats	27/04/2017 14:59	84398	32,000
AGO-NOC	TK-KKD-AGO		711	655-655 KPA SOT-Tug Boats	27/04/2017 14:58	84392	32,000
Total							64,000

e). Differences in deliveries were noted between Oracle & Great White as shown in the table below:

Oracle deliveries to KPA	AGO	PMS
Total receipts in oracle(650)	12,831,453.00	1,289,478.00
Add in-transit products	100,000.00	
backordered but delivered	96,000.00	
Add diversions from other customers	184,000.00	30,000.00
Processed in warehouse 651 but delivered to KPA	60,000.00	
Processed in warehouse 655 but delivered to KPA	64,000.00	

Less diversions to other customers	(32,000.00)	(10,000.00)
Less reversals	(575,051.00)	(57,000.00)
Total deliveries as per Oracle(A)	12,728,402.00	1,252,478.00
Total receipts confirmed by Great White	11,052,359.00	1,227,268.00
Difference in documentation of stocks receipts (Jul17-Jun 18)*	933,867.00	
Total confirmed receipts at KPA(B)	11,986,226.00	1,227,268.00
Variance in Oracle and physical receipts at KPA(A-B)	742,176.00	25,210.00

9. Confirmation of deliveries to KPA Kapenguria

- a. Some of the documents for product received at KPA could not be found at KPA offices. Great White lacked physical documents for proof of delivery from inception of KPA contract to March 2017, and hence it was impossible to consolidate information for the aforementioned period. In an attempt to validate the quantity Greatwhite acknowledged as having received, we compiled figures from documents at their office, their excel records and photocopies of their receiving book. The figures are shown below for the period between July 2017 and June 2018 for AGO.

Month	Confirmed/supporte d Receipts at Great White(A) Ltrs	Receipts as per Great White (B) Ltrs	Variance in Receipts (A-B) Ltrs
Jul-17	598,000	506,000	92,000
Aug-17	764,000	578,000	186,000
Sep-17	702,000	540,000	162,000
Oct-17	626,742	636,000	(9,258)
Nov-17	553,251	544,000	9,251
Dec-17	591,257	798,445	(207,188)
Jan-18	735,516	470,200	265,316
Feb-18	649,709	521,000	128,709
Mar-18	619,969	616,808	3,161
Apr-18	702,464	574,900	127,564

May-18	652,361	560,960	91,401
Jun-18	754,811	669,900	84,911
Total	7,950,080	7,016,213	933,867

- b. Some of the deliveries recorded as received at KPA had been destined for other customers. However Great White had signed and stamped delivery notes for the diverted product, which creates confusion. These diversions were not corrected in the system to reflect where they were delivered hence the reason for some product still showing as 'in-transit' as shown in the table below:

Description	Transaction Quantity	Delivery No.	Status
Automotive Gas oil (AGO)	30,000	22886405	diverted from ICD
Automotive Gas oil (AGO)	30,000	22886397	diverted from ICD
Automotive Gas oil (AGO)	32,000	22917070	diverted from shreeji
Automotive Gas oil (AGO)	32,000	22917858	diverted from shreeji
Automotive Gas oil (AGO)	30,000	22919749	diverted from Kenya Railways
Automotive Gas oil (AGO)	30,000	22921753	diverted from Ewaso sabena
Total	184,000		
Premium Motor Spirit (PMS)	10,000	22901658	diverted from Embul bul
Premium Motor Spirit (PMS)	10,000	22908682	diverted from mackinon
Premium Motor Spirit (PMS)	10,000	22920304	diverted from sajadhussain janowal
Total	30,000		

- c. Some of deliveries meant for KPA were diverted to other customers yet there was no correction of these transactions in the system.

Description	Transfer Org	DELIVERY NO	Transaction Date	Transaction Quantity	Status
Automotive Gas oil (AGO)	723	22918678	31/05/2018	32,000	delivered to shreeji
Premium Motor Spirit (PMS)	715	22894356	28/12/2017	10,000	delivered to Mackinon

- d. Some of the deliveries to KPA were later backordered in the system. Though some may have been replaced by new transactions, there was no documentation to show the correlation.

Date	Delivery Note No.	Order No.	Quantity	Quantity (AGO)
03/11/2017	22887252	286707	32,000	in KPA records as having been delivered
06/02/2018	22900875	296931	32,000	in KPA records as having been delivered
08/02/2018	22901141	298124	32,000	in KPA records as having been delivered
			96,000	
24/10/2017	22884940	285156	32,000	backordered
05/03/2018	22903067	298690	32,000	backordered
05/03/2018	22903068	298690	32,000	backordered
12/03/2018	22906175	302046	32,000	backordered
13/03/2018	22906371	302344	32,000	backordered
17/03/2018	22907237	303101	32,000	backordered
13/04/2018	22910568	306257	32,000	backordered
21/06/2018	22922076	315321	32,000	backordered
Total			224,000	

- e. Lack of proper inventory management at the station was noted; no signed stocks reconciliation reports were available, all stocks movements were sent to MSA Office, Stocks Accountant and CI manager; however, the reports are not consistent.
- f. Some records at the Mombasa office did not have a stamped delivery note as proof of delivery of product to the KPA Kapenguria station.
- g. When transporters deliver product to customers e.g. KPA, they issue a consignment note. It was noted that some transporters do not issue this document for proof of delivery. This is lack of consistency likely to cause differences/disputes.

F. RECOMMENDATIONS

1. There should be a serialized standard/formal LPO presented to NOC by Great White personnel for all orders placed as stipulated in the contract document.
2. There is need for confirmation by all parties – NOC and KPA - at the point of product delivery to Great White site.
3. We propose that the CI Manager and TM CI Job Descriptions be amended to capture the actual process as it is, as of now the responsibilities pertaining to raising Internal Sales Orders (ISO) and account allocations are not duly documented.
4. We recommend that the process of delivery of documentation to the customer be redesigned to ensure confirmation of product receipt is done real time. For a quick fix there should be a serialized physical delivery book branded by the Corporation as a long term solution is being sought.
5. Orders awaiting shipping should be completed within a specified time, failure to which the accumulated volumes should be escalated to the respective supervisor for follow up and/or action. Culpable officers should be disciplined.

6. All ISOs should be receipted in their respective warehouses upon presentation of the delivery notes from the customer. All these warehouses should have a responsible person attached to them, from whom an explanation should be sought should there be any reconciliation issues.
7. We recommend in-house training by ICT in conjunction with HR, whereby new staff and/or those transferred must be trained on the allocated modules and ensure proper sign off.
8. There is need for timely reconciliations by Stocks Accountants; this acts as a preventive measure. With this, non-reconciling items are captured and addressed in time.
9. Manually changing a loading authority at the point of lifting product from the hospitality depots should be highly discouraged. Therefore we recommend an overhaul of the backordering process, to capture the unique/distinct nature of Mombasa order processing.
10. We recommend that the warehouses with erroneous transfers, for instance the orders shipped from hospitality depots direct to KPA mobile bowzers be rectified. Therefore a control should be put in place by ICT to prevent the similar occurrence.
11. Tug Boats must only load from the Oil Libya site; therefore loading from other sources should be strictly prohibited.
12. Great White Investment Limited should have proper documentation of all product delivered to them as described in the scope of works in the contract. This should be closely monitored and signed off by the CI TM on a weekly and monthly basis.
13. Product diversions should be "returned to stock" in the correct warehouses as and when they arise, all RTS should have proposals that are approved.
14. We recommend that all transporters should provide consignment notes upon product delivery at Great White; these should be attached to the delivery documents without fail.
15. There should be proof of delivery by the transporter before payment is done.
16. We recommend that the contracts in place be amended, through appropriate addendum to capture the introduction of KPA Bowzers and how the same should be billed. It is of concern that upon transfer of product to the KPA bowzers, the Corporation is still held responsible for the product ownership.
17. As a matter of urgency, a proper reconciliation of product delivered, shipped and invoiced should be done to clean up the system warehouses.

G. CONCLUSION

To help increase efficiency of the KPA Kapenguria and other CI sites, it is imperative that stocks are managed diligently as documented in the contracts, standard procedures and JDs. The officers in charge of the stocks management chain – raising, confirming & shipping orders, to invoicing/billing, cash collection, stock takes & reconciliations - should explain the anomalies noted in the stocks management process.

1. From the commercial and the stocks control side, the positions responsible for the logistics of ensuring stocks are availed to the users as and when required, are as highlighted in the structures below:

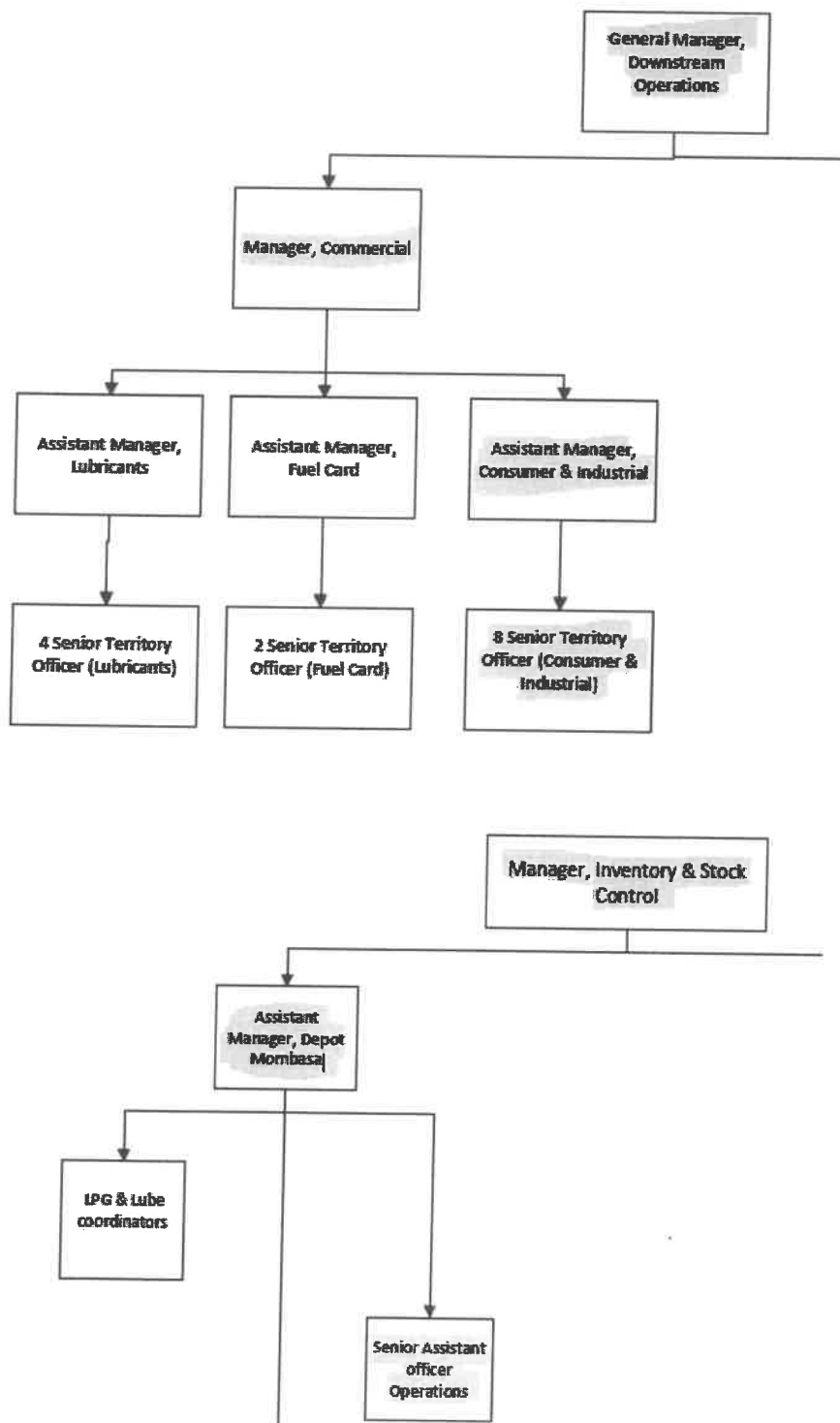
The Commercial team is comprised of:

General Manager, Downstream Operations; providing oversight
 Manager, Commercial;
 Assistant Manager, Consumer & Industrial and
 Territory Managers, Consumer & Industrial

The logistics team responsible for stocks & inventory control include:
 Manager, Inventory & Stocks Control;

Assistant Manager, Mombasa Depot;
Territory Manager CI, Mombasa; and
Senior Assistant Officer, Operations.

COMMERCIAL DEPARTMENT &



2. From the accounting side for ensuring there is proper accountability of stocks including timely shipping, invoicing and reconciliations, the Finance team comprising of Head of Finance, Management Accountant & Stocks Accountants need to explain the variances and other gaps in the stocks records which should have been captured in their daily, weekly and/or monthly reconciliations for appropriate address.

The Job Descriptions for the respective positions spell out the functions each of them must carry out in the stocks management process.

It is imperative that all the positions in the structures above work seamlessly to ensure the stocks are holistically well managed at all times. The senior positions provide overall oversight to the positions below them for best results.

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