

REPUBLIC OF KENYA



*Enhancing Accountability*

**REPORT**



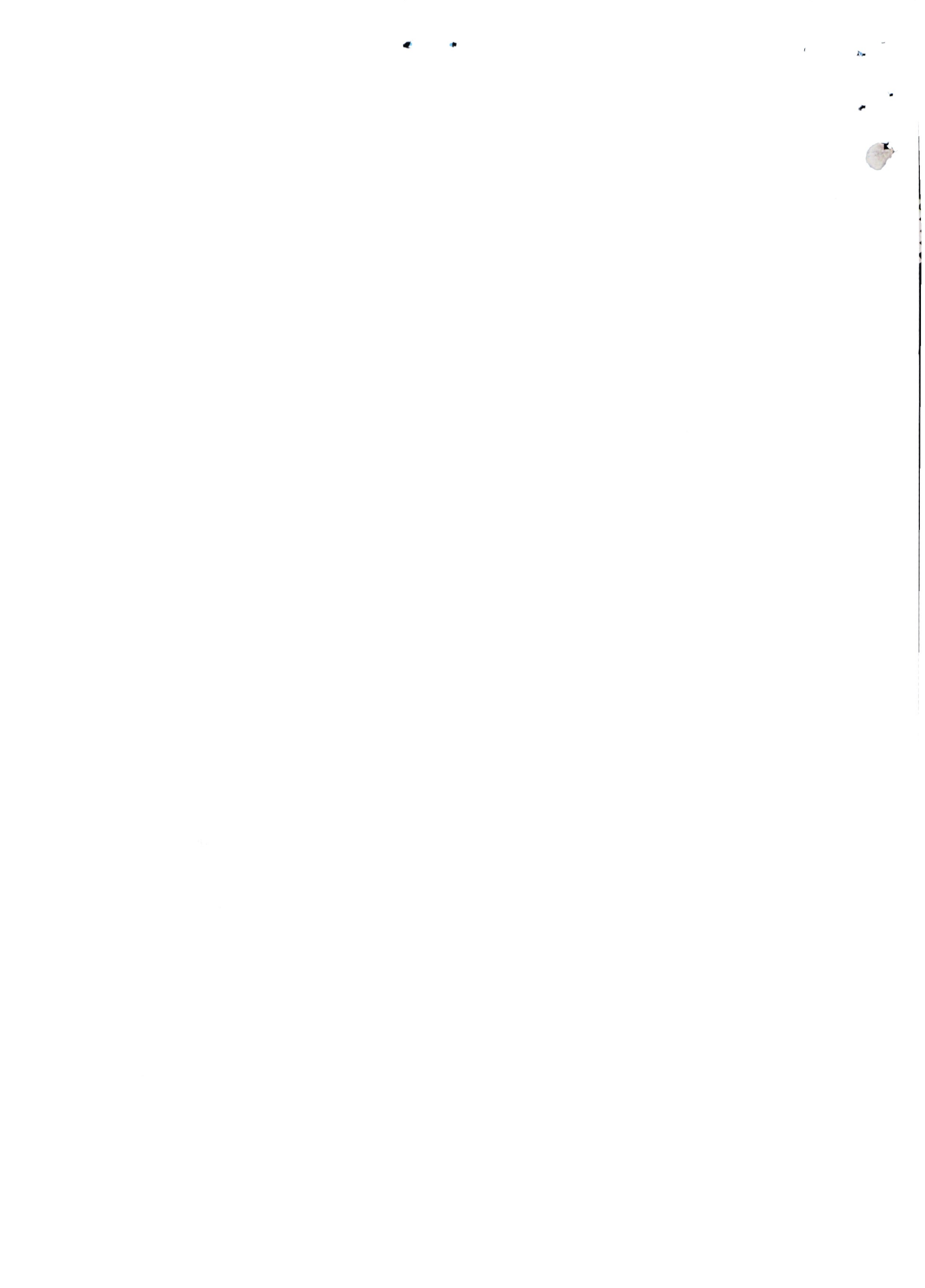
**OF**

**THE AUDITOR-GENERAL**

**ON**

**STRATEGIC FOOD RESERVE  
TRUST FUND**

**FOR THE YEAR ENDED  
30 JUNE, 2020**



**STRATEGIC FOOD RESERVE TRUST FUND  
REPORTS AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2020**

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**STRATEGIC FOOD RESERVE TRUST FUND**

**REVISED ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDING  
JUNE 30, 2020**

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**Prepared in accordance with the Accrual Basis of Accounting Method under the  
International Public Sector Accounting Standards (IPSAS)**

**STRATEGIC GRAIN RESERVE FUND  
REPORTS AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2020**

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**I. KEY INFORMATION AND MANAGEMENT**

**(a) Background information**

The Strategic Grain Reserve (SGR) was established in 2002 under the legal Notice No. 55 of 2002. The main purpose was to cushion farmers from the effect of over-supply in periods of good weather and to provide a first line of defence for coping with food deficits. The SGR was mandated to maintain a physical stock of 4 million bags of maize and a cash equivalent of a similar volume. The mix of grain and cash was to ensure that on the one hand the Government was able to save lives in the case of an emergency by mobilizing food to areas not well served by grain markets. On the other hand, cash reserves allowed the government to purchase the commodity in areas with well-functioning markets when an emergency occurs. In the year 2015, the Strategic Grain Reserve Trust Fund was transformed to Strategic Food Reserve Trust Fund through the legal notice No. 15 of February 2015. After the transformation other food commodities besides maize have been incorporated into the Reserve. This includes; rice, beans, powder milk, fish and canned beef. The management of the fund has also changed from the former Board to Strategic Food Reserve Oversight Board. The new Board expanded from the former SGR Board to include four independent members and a Chairman. In the 14<sup>th</sup> April 2020, The Public Finance Management (Strategic Food Reserve Trust Fund) Regulations was eventually revoked hence its cessation but there is a court injunction/ order stopping the cessation of the Fund.

**(b) Principal Activities**

The object and purpose for which the Fund is established is to provide a Strategic Food Reserve in physical stock and cash equivalent and specifically the Fund shall-

- i. stabilize the food supply and prices in the country;
- ii. arrange for procurement, storage and sale of food commodities;
- iii. maintain adequate strategic food reserves in physical stock or cash equivalent at any one given time; and
- iv. Mobilize resources to support strategic food reserve related activities.

**(c) Key Management**

The reserve is managed by an Oversight Board which comprise of Principal Secretaries; State Department of Crops Development, State Department of Devolution, The National Treasury, Ministry of Interior and the Board Chairman appointed by the President. The National Cereals and Produce Board (NCPB) was the Agent mandated to store and manage the maize stocks while New Kenya Cooperative Creameries (New KCC) was the agent who stored and managed the milk powder on behalf of the Government for the period under review.

**(d) Fiduciary Management**

The management of the reserve was under the following members of the Oversight Board:

1. Dr. Eng. Karanja Kibicho – Principal Secretary - Interior
2. Mr. Charles Sunkuli - Principal Secretary – Devolution
3. Dr. Julius Muia – Principal Secretary- The National Treasury
4. Prof. Hamadi I. Boga – Principal Secretary, State Department of Agriculture
5. Dr. Noah Wekesa – Board Chairman

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6. Gerald Masila – Board Member
7. Abass Maalim mohamed– Board Member
8. Lucas Chepkitony – Board Member

The Principal Secretary, State Department for Crops Development was the Accounting Officer for the Fund during the financial year ended 30<sup>th</sup> June 2020.

**(e) Fiduciary Oversight Arrangements**

- The Oversight Board was the overall decision-making organ on the management of the reserves while the National Cereals and Produce Board (NCPB) was the agent managing the stocks of the Strategic Food Reserve under a mutually agreed agency agreement. The NCPB was to procure and maintain the maize stocks while New KCC was procuring and storing the milk powder on behalf of the government.
- The Fund had a technical team referred to Strategic Food Reserve Oversight Board Secretariat which was offering technical advice to the Oversight Board. This team carried out the monitoring and supervision of the management of the Strategic Food Reserve stocks and made recommendations to the Oversight Board for decision making.
- The auditor general reviews the financial statements of the Fund and lends an opinion on the state of affairs. In addition, the auditors review the internal control through systems audit and advice on the adequacy of the internal control systems in place.

**(f) Strategic Grain Reserve Fund Headquarters**

Kilimo house  
Cathedral Road  
P.o Box 30028-001000  
Nairobi. KENYA.

**(g) SFRTFF Contacts**

E-mail: [strategicfoodreserve@gmail.com](mailto:strategicfoodreserve@gmail.com)

**(h) Bankers**

Central Bank of Kenya  
Haile Selassie Avenue  
P.O. Box 60000  
City Square 00200  
Nairobi, Kenya

**(i) Independent Auditors**

Office of the Auditor General  
Anniversary Towers, University Way  
P.O. Box 30084  
GOP 00100  
Nairobi, Kenya

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- (j) Principal Legal Adviser**  
The Attorney General  
State Law Office  
Harambee Avenue  
P.O. Box 40112  
City Square 00200  
Nairobi, Kenya

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**II. THE MEMBERS OF THE BOARD**

	<p>Dr. Julius Muia is the Principal Secretary at The National Treasury. Prior to this, he was the Principal Secretary at the State Department for Planning – The National Treasury and Planning. Before his appointment as PS Planning, he was the Director General, Vision 2030 Delivery Secretariat which operated under the Office of the President, Republic of Kenya to facilitate the implementation of Vision 2030.</p> <p>Between April 2008 and October 2016, Dr. Muia served as the Secretary, National Economic and Social Council, Office of the President. This is a top advisory government think tank whose flagship project was formulating Vision 2030. An alumnus of the University of Nairobi’s School of Business, Dr Julius Muia graduated with a First Class Honours Degree in Accounting; Master Degree and PhD in Finance from the same university. His professional qualifications include: Certified Public Accountant (CPA-K); Certified Public Secretary (CPS-K), Associate Kenya Institute of Bankers; Associate Chartered Institute of Arbitrators; and Certified Coach.</p>
<p>Dr. Julius Muia –Principal Secretary, The National Treasury</p>	<p>Mr. Julius Sunkuli is the Principal Secretary for the State Department of devolution, Ministry of Devolution and ASAL. He has previously served as the Principal Secretary, Ministry of Environment &amp; forestry, a position he held from December, 2015 to February 2018.</p> <p>Prior to his appointment as the Principal Secretary, Mr.Sunkuli worked with Ewaso Ngiro south River Development authority (ENSDA) where he rose through the ranks to become the managing director from 2010- 2016.</p> <p>He has a wealth of experience in public service spanning over 18 years. Mr. Sunkuli is an experienced management strategist with a solid background in Administration planning, management and leadership.</p>
	<p>Dr. Eng. Karanja Kibicho (CBS) is the Principal Secretary State Department of Interior in the Ministry of Interior and Coordination of the National Government. Before the current appointment, he served as the Principal Secretary in the Ministry of Foreign Affairs and International Trade and also Permanent Secretary in the Ministry of Industrialization. He holds a Doctorate in Mechanical Engineering from the University of Cape Town, South Africa, a Masters of Science (MSc) degree in Mechanical Engineering and a Bachelor of Science (BSc) in Mechanical Engineering. Dr. Kibicho has taught in various institutions of higher learning in Kenya and</p>
<p>Mr. Charles T. Sunkuli, CBS, Principal Secretary, State Department for Devolution</p>	
	

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<p>Dr. Eng. Karanja Kibicho – Principal Secretary – State Department of Interior</p>	<p>outside the country. They include Jomo Kenyatta University of Agriculture and Technology (JKUAT) where he served as the Chairman and Senior Lecturer in the Department of Mechanical Engineering. He has served as an external examiner at the University of Dar es Salaam, visiting lecturer at the Central University of Technology, Free State, South Africa and a part-time Lecturer at the University of Cape Town.</p>
 <p>Prof. Hamadi Iddi Boga Principal Secretary- State Department for Crop Development</p>	<p>Principal Secretary, State Department of Agriculture Research, and Ag. Principal Secretary, State Department for Crop Development Ministry of Agriculture, Livestock, Fisheries and Irrigation</p> <p>Born 03.12.1967 in Kwale Kenya, Hamadi Boga was appointed Principal Secretary in the State Department of Agriculture Research in March 2018.</p> <p>Before that Hamadi Boga, was a Professor of Microbiology at Jomo Kenyatta University of Agriculture and Technology (JKUAT) (2007-2012) was the Acting Vice Chancellor of Taita Taveta University since 7<sup>th</sup> October 2016 to March 2018. He has a BSc in Botany and Zoology (First Class Honors) and MSc in Botany (Microbiology) from Kenyatta University in Kenya, PhD in Microbial Ecology and Microbiology from University of Konstanz, Germany and a Post-Doctoral Research stay at the Max Planck Institute for Terrestrial Microbiology in Marburg, Germany. He is also a Humboldt Fellow and was from 2010-2015 the Humboldt Ambassador Scientist for Kenya.</p> <p>Boga has previously, held various administrative positions in JKUAT including Chairman of Botany Department (2002-2004), Director of Institute of Biotechnology Research (2005), Dean of Faculty of Science (2007) and Principal of JKUAT Taita Taveta Campus in Voi (2007 to 2012). From 2012-2016 he was the Principal of Taita Taveta University College.</p> <p>He has an extensive international and local network of scientific engagements and collaborations. He was a Board Member of the World Federation of Culture Collections (<a href="http://www.wfcc.org">www.wfcc.org</a>)(2010-2013). He was the Secretary of the African German Network of Excellence in Science (AGNES) (2013-2016), the Secretary (2002-2006) and later Chairman (2008-2010) of the Kenya German Scholars Association (KDSA)</p> <p>Boga has over 66 scientific publications in International Journals, has supervised over 14 PhD and 31 MSc students. He is an active researcher with active international collaborations. Has a strong track record of fundraising for research. He has wide experience in Management and strategic planning.</p>

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 <p>Dr. Noah Wekesa – Board Chairman</p>	<p>He is the chairperson - Strategic Food Reserve Trust Fund. Prior to the appointment he had served as a member of parliament for Kwanza constituency, as assistant minister of Agriculture and Livestock Development and as Cabinet Minister in the Ministries of Science and Technology, Ministry of Livestock and Fisheries and in the Ministry of Forestry and Wildlife.</p> <p>He holds a degree (Bachelor of Veterinary Medicine and Surgery (BVMS)) from Edinburgh University in Scotland, Royal (Dick) School of Veterinary Medicine.</p>
 <p>Mr. Gerald Masila – SFR Board Member</p>	<p>He is the Executive Director of EAGC. He is the former Managing Director of Kenya Wines Agencies Limited (KWAL) and the Kenya Planters Cooperation Union (KPCU). Previously he worked for British American Tobacco, New Kenya Cooperative Creameries (NKCC) and Acumen Business Consultants. He holds a Master of Science Degree in Agricultural Economics –Marketing Major and a Bachelor of Arts Degree both from Egerton University, Kenya</p>
 <p>Hon. Lukas Chepkitony – SFR Board Member</p>	<p>He was the member of parliament for Keiyo North from 2002 to 2013.</p> <p>He holds Master’s degree in Finance from <u>Kenyatta University</u> and Bachelor of Commerce (B.Com.), Accounting and Finance, from <u>Strathmore University</u>. He is a Certified Public Accountant and member of Institute of Public Accountants of Kenya</p>
<p>Abass Maalim Mohamed – SFR Board Member</p>	<p>Coordinator of Consortium of Cooperating Partners (Cocop). He has also worked as District Agriculture Officer, Ministry of Agriculture, Wajir and Mandera Districts, as Emergency Relief Operations Coordinator for Arid Lands Resource Management Project II (ALRMP II) and an Assistant Field Coordinator - Oxfam Quebec- Mandera District, Kenya. He holds Msc in Agriculture and Rural Development from Kenya Methodist University, and BSc. Horticulture, Hons.from Kenyatta University.</p>

These were the SFRTF board members that served during the FY though the tenure of the Chair lapsed in October 2019.

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**III. STATEMENT OF BOARD'S RESPONSIBILITIES**

Section 81 of the Public Finance Management Act, 2012 requires the Fund to prepare financial statements in respect of the Strategic Grain Reserve Fund, which give a true and fair view of the state of affairs of the Strategic Food Reserve Trust Fund at the end of the financial year/period and the operating results of the Strategic Food Reserve Trust Fund for that year/period. The Board is also required to ensure that the Strategic Food Reserve Trust Fund keeps proper accounting records which disclose with reasonable accuracy the financial position of the entity. The Boards is also responsible for safeguarding the assets of the Strategic Food Reserve Trust Fund.

The Board is responsible for the preparation and presentation of the Strategic Food Reserve Trust Fund's financial statements, which give a true and fair view of the state of affairs of the Strategic Grain Reserve Fund for and as at the end of the financial year (period) ended on June 30, 2020. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Kenya Citizens and Foreign Nationals Management Fund; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Board accepts responsibility for the Strategic Food Reserve Trust Fund's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act and the Public Finance Management (Strategic Food Reserve trust Fund) Regulations 2015. The Board is of the opinion that the Strategic Food Reserve Trust Fund's financial statements give a true and fair view of the state of Kenya Citizens and Foreign Nationals Management Fund's transactions during the financial year ended June 30, 2020, and of the Strategic Food Reserve Trust Fund's financial position as at that date. The Board further confirm the completeness of the accounting records maintained for the entity, which have been relied upon in the preparation of the Strategic Food Reserve Trust Fund's financial statements as well as the adequacy of the systems of internal financial control.

Revocation of the Fund has come to the attention of the Board to indicate that the Strategic Grain Reserve Fund may not be a going concern any more in the near future.

The *SFRTF's* financial statements were approved on behalf of the Board and signed by the Accounting Officer since the Board were revoked through Legal Notice no. 61.

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**IV. PRINCIPAL SECRETARY STATEMENT**

The Government of Kenya continues to ensure that every citizen has access to affordable quality food throughout the year and consequently acknowledges that sustained food security of the nation is paramount in ensuring social, political and economic stability of the nation. Maize being the major staple food among all the communities in the country, the Government continuously make efforts to ensure that the country stocks sufficient stocks to sustain its demand by the people across all the 47 counties and other necessary emerging needs. In pursuit of this role of the Government, the maintenance of buffer stocks through the Strategic Food Reserve becomes critical at all times.

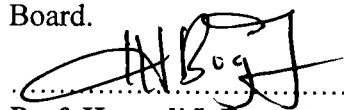
The history of maintaining National Strategic Grain Reserves, started from early 1970s when a prolonged drought which was compounded by a simultaneous world-wide cereal shortage led to prices rising to record levels. With limited availability and high prices, the donor community and governments were unable to provide sufficient amounts of food to many people in the region leading to a great famine. The experiences from the food shortage and inflation of food prices in Kenya and many other countries in Sub-Saharan Africa acted as a wakeup call to strategically plan to have buffer stocks of food to address food emergencies and distortions in food prices.

To mitigate such events in the country in future, the Government established National Strategic Grain Reserve (SGR), now called Strategic Food Reserve to procure, store and maintain maize stocks through the National Cereals and Produce Board as the Agent of the Government. The buffer stock is meant to; provide emergency food assistance to transitory food insecure, assist producers secure a minimum price for their produce at harvest time and to provide domestic consumers price support (market intervention) to procure food at affordable price throughout the year.

During the 2019/2020 financial year, the Strategic Food Reserve sold its maize reserve to millers to cushion consumers from high prices of maize flour. This was as a result of shortage of maize stocks in the markets. The Fund didn't procure maize stock from farmers due to strained financial resources among other constraints. However, the reserve (then) anticipated to expand the commodity diversity in the reserve to address the diverse food preferences across the various communities. During the financial year, powder milk worth Ksh. 700 million was maintained in the reserve through selling and replenishment for quality sustainability throughout the year. The milk was also used to stabilize the milk prices in the country by reconstituting the powder milk during drought (deficit) periods and replenishing it during milk gluts. The Fund managed to sell approximately 98-99% of its maize stock during the year.

Other activities aided by the Fund during the year included the maize subsidy programme which was facilitated by the Strategic Food Reserve to avail maize to millers to address then escalating maize flour prices and maize deficit in the country.

On behalf of the (then) Board, I greatly acknowledge and appreciate every kind of support from the Government and other partners who enabled the Fund achieved its planned activities towards ensuring national food security. The contribution of each member and stakeholder involved are appreciated. Finally, it is my pleasure to submit the annual report and financial statement of the Strategic Food Reserve Trust Fund for the year ended 30<sup>th</sup> June 2020 on behalf of the Strategic Food Reserve Oversight Board.



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**Prof. Hamadi I. Boga, PhD,**  
**Principal Secretary, State Department for Crop Development**

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**V. CHAIRMAN'S STATEMENT**

The chair acknowledge the effort of the Government of Kenya for continuously ensuring that every citizen has access to affordable quality food hence formation of SFR to stabilize food prices across the country. Further, He appreciate the Government's efforts of ensuring that the country held at its stores sufficient stocks to sustain its demand by the people across all the 47 counties and other necessary emerging needs.

The Chair also emphasized the fact the Fund ambition to procure more maize stock in the FY 2019/2020 to boost the reserve in the stores. He further emphasized that the Fund anticipates to expand the commodity diversity in the reserve to address the diverse food preferences across the various communities.

The chair also insists that the SFR Oversight Board was the overall decision-making organ on the management of the reserves while the National Cereals and Produce Board (NCPB) was the agent managing the stocks of the Strategic Food Reserve under a mutually agreed agency agreement. The NCPB on behalf of the SFR board was to procure and maintain the maize stocks while New KCC was to procure and store the milk powder on behalf of the government.

The chair greatly acknowledge and appreciate every kind of support from the Government, millers, farmers and other stakeholders who enabled the Fund achieved its planned activities towards ensuring national food security.

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**VI. CORPORATE GOVERNANCE STATEMENT**

**The Oversight Board**

The Oversight Board establishes the policies for the strategic food reserve and sets the strategic direction and oversees management with a focus of enhancing service delivery to effectively implement its mandate. The Board is also responsible for the corporate governance of the strategic grain reserve.

**Size of the Oversight Board**

The legal notice No. 15 of 2015 provides for the size of the Board as nine (9) comprising of Principal Secretaries in charge of Agriculture, Interior, National Treasury (finance) and Interior, others include a Chairperson appointed by the President and four independent Board members.

**Meetings of the Board**

The Oversight Board shall meet not less than four times in every financial year and not more than four months shall elapse between the dates of the next meeting. Unless three quarters of the total members of the Oversight Board otherwise agree, at least fourteen days written notice of every meeting of the Oversight Board shall be given to every member of the Board. The quorum for the conduct of the business of the Oversight Board shall be five members excluding the Secretary, of whom the majority shall be from amongst the non *ex-officio* members.

The chairperson shall preside at every meeting of the Oversight Board at which he or she is present but in his or her absence, the members present shall elect one of their number who shall, with respect to that meeting and the business transacted there at, have all the powers of the chairperson. Unless a unanimous decision is reached a decision on any matter before the Oversight Board shall be reached by consensus.

**Disclosure of interest**

If a member is directly or indirectly interested in any contract, proposed contract or other matter before the Oversight Board and is present at a meeting of the Oversight Board at which the contract, proposed contract or other matter is the subject of consideration, he or she shall, at the meeting and as soon as practicable after the commencement thereof, disclose the fact and shall not take part in the consideration or discussion with respect to the contract or other matter, or be counted in the quorum of the meeting during consideration of the matter: Provided that if the majority of the members present are of the opinion that the experience or expertise of that member is vital to the deliberations of the meeting, the Oversight Board may permit the member to participate in the deliberations subject to such restrictions as it may impose. A disclosure of interest made under this paragraph shall be recorded in the minutes of the meeting at which it is made.

**Vacation of office**

A member of the Board may vacate from office on the basis of the following grounds:-

- a) At any time resign from office by notice in writing to Cabinet Secretary; or transferred from the participating ministry
- b) has been absent from three consecutive meetings of the Oversight Board without permission from the chairperson;
- c) is adjudged bankrupt or enters into a composition scheme or arrangement with his creditors;
- d) is convicted of an offence involving dishonesty or fraud;

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- e) is convicted of a criminal offence and sentenced to imprisonment for a term exceeding six months;
- f) is incapacitated by prolonged physical or mental illness; or
- g) is otherwise unable or unfit to discharge his functions

**Board attendance**

The Board held fifteen (15) both scheduled, joint and special meetings in the year and there was quorum in all the meetings

**VII. MANAGEMENT DISCUSSION AND ANALYSIS**

**Establishment of Commodity Exchange/ Warehouse Receipt System**

Establishment of WRS is expected to revolutionize the grain trading in the country. This will enable farmers to deposit their produce during times of harvest and sell when prices improve. The advantage is that, the system will curtail exploitative tendencies exhibited by the middlemen and smoothen food supply throughout the year.

This will also address the need for Government led price intervention commodity market towards economic based markets.

The progress is as follows;

- a) The proposed Warehouse Receipt system Bill 2015 which had been approved on 31<sup>st</sup> August 2016 by Parliament, was referred to the senate owing to the effects of the Bill that affect the country affairs which require the Senate to pass all the Acts touching on the devolve function. It had been scheduled for debating and passing at the Senate however due to the time constraints it was not reached and therefore it is expected to be brought for debating and passing once the senate is convened.
- b) The Ministry of Industry, Trade and Cooperatives is currently seeking consultancy services to support the establishment of a Commodities Exchange. The Consultant is expected to provide technical assistance in the establishing and operationalizing a commodities exchange in Kenya.

In order to operationalize the WRS, SFRTFF in collaboration with NCPB is in the process of identifying and upgrading specific storage facilities country-wide alongside other stakeholders which shall be used for warehouse receiptings.

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**VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT**

The strategic food reserve is sensitive to the community it operates in and therefore engages in SCR activities to boost the relationship between itself and the community. In the financial year 2019/20, it intervened in the market by purchasing maize at favourable prices to safeguard the farmers from exploitation by brokers. It also transferred maize from grain basket region to maize deficit areas to take care of the food needs of the residents. It also intervened in maize flour price stabilization by releasing its stock to the market when the maize flour price was rising to levels beyond the reach by the poor.

**IX. REPORT OF THE MANAGEMENT**

The Accounting Officer submit the report together with the audited financial statements for the year ended June 30, 2020 which show the state of the *SFRTF's* affairs as tabulated below.

**Principal activities**

The principal activities of the Fund is to stabilize the food supply and prices in the country, arrange for procurement, storage and sale of food commodities, maintain adequate strategic food reserves in physical stock or cash equivalent at any one given time and mobilize resources to support strategic food reserve related activities.

**Results**

The results of the SFRTF for the year ended June 30, 2020 are set out on page 1 to 34

**MEMBERS OF THE BOARD**

The members of the Board who served during the year are shown on page 5, 6 and 7.

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**X. STATEMENT OF MANAGEMENT'S RESPONSIBILITIES**

Section 81 of the Public Finance Management Act, 2012 requires the Accounting Officer to prepare financial statements in respect of that Strategic Food Reserve Fund (SFRF), which give a true and fair view of the state of affairs of the *SFRTF* at the end of the financial year/period and the operating results of the *SFRTF* for that year/period. The Accounting Officer is also required to ensure that the *SFRTF* keeps proper accounting records which disclose with reasonable accuracy the financial position of the *SFRTF*. The Accounting Officer is also responsible for safeguarding the assets of the *SFRTF*.

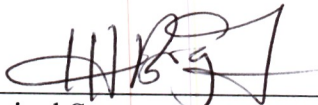
The Accounting Officer is responsible for the preparation and presentation of the *SFRTF's* financial statements, which give a true and fair view of the state of affairs of the *SFRTF* for and as at the end of the financial year (period) ended on June 30, 2020. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the *SFRTF*; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the *SFRTF*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Accounting officer accepts responsibility for the *SFRTF's* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012. The Accounting Officer is of the opinion that the *SFRTF's* financial statements give a true and fair view of the state of *SFRTF's* transactions during the financial year ended June 30, 2020, and of the *SFRTF's* financial position as at that date. The Accounting Officer further confirm the completeness of the accounting records maintained for the *SFRTF*, which have been relied upon in the preparation of the *SFRTF's* financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Accounting Officer to indicate that the *SFRTF* will not remain a going concern for at least the next twelve months from the date of this statement.

**Approval of the financial statements**

The *SFRTF's* financial statements were approved on behalf of the Board and signed by:



Principal Secretary

Name: **Prof. Hamadi I. Boga, PHD**

Date.....

**STRATEGIC FOOD RESERVE TRUST FUND  
REPORTS AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2020**

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**I. REPORT OF THE INDEPENDENT AUDITORS**

The Auditor General is responsible for the statutory audit of the *SFRTF* in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 to carry out the audit of the *SFRTF* for the year/period ended June 30, 2020.

# REPUBLIC OF KENYA

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## **REPORT OF THE AUDITOR-GENERAL ON STRATEGIC FOOD RESERVE TRUST FUND FOR THE YEAR ENDED 30 JUNE, 2020**

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### REPORT ON THE FINANCIAL STATEMENTS

#### **Disclaimer of Opinion**

I have audited the accompanying financial statements of Strategic Food Reserve Trust Fund set out on pages 16 to 31, which comprise the statement of financial position as at 30 June, 2020, and the statement of financial performance, statement of changes in net assets, 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

#### **Basis for Disclaimer of Opinion**

##### **1.0 Unsupported Sales of Maize**

The statement of financial performance reflects an amount of Kshs.7,498,573,576 from sale of maize, which was made to various maize millers, National Government institutions and County Governments by the National Cereals and Produce Board. However, there was no verifiable documentary evidence in support of the identification and approval of the quantity of maize allocated to various millers and institutions including the minutes for approval by the Board.

Consequently, the completeness and accuracy of the proceeds from sale of maize amount of Kshs.7,498,573,576 could not be confirmed.

##### **2.0 Overstatement of the Fumigation and Storage Charges**

The statement of financial performance reflects expenses totalling Kshs.80,132,222 under fumigation and storage charges which were computed at the rate of Kshs.4.80 per bag based on an average of the opening stock and closing stock. However, the average stock figure of 220,268 bags at the end of the year that was used in computation of the fumigation and storage charges was based on a wrong figure of opening stock of 267,039 bags instead of 178,094 bags. The difference of 88,945 bags between the two figures

resulted in overstatement of the closing stock of bags, the average stock of bags and consequently the storage charges by Kshs.2,530,556. The cost of storage and fumigation charges was therefore overstated by Kshs.2,530,556.

### **3.0 Handling Costs on Sales and 10% Commission on Sales**

As disclosed in Note 11 to the financial statements, the statement of financial performance reflects an expenditure of Kshs.782,851,081.33 on handling costs on sales and commissions. The amount is normally a commission of 10% of the sales figure. However, no documentary evidence was provided on sales of maize or the handling charges. The validity of the expenditure therefore cannot be confirmed.

### **4.0 Board Expenses**

#### **4.1 Irregular Payment of Allowances and Benefits to the Former Chairman**

The statement of financial performance reflects an expenditure of Kshs.8,463,240 under board expenses which includes an amount of Kshs.844,500 paid to the former Chairman of the Board after expiry of his term. The appointment of the Chairman lapsed on 20 October, 2019 but he continued to receive sitting allowances and honoraria from the Fund irregularly.

#### **4.2 Unsupported Board Expenses**

The board expenses of Kshs.8,463,240 also includes an amount of Kshs.1,622,500 that was not supported by the Board attendance register or minutes of all the Board meetings that were held during the year under review. In addition, an expenditure of Kshs.547,000 was not supported by payment vouchers.

Consequently, the validity and accuracy of the reported Board expenses of Kshs.8,463,240 could not be ascertained.

### **5.0 Gunny Bags Expenditure**

The statement of financial performances reflects an amount of Kshs.175,000,000 under gunny bags' expenditure. The National Cereals and Produce Board (NCPB) utilized the funds to procure 800,000 jute bags and 1,175,000 polypropylene bags at a cost of Kshs.133,272,815 and Kshs.38,862,500 respectively, while an expenditure of Kshs.15,508,910 was incurred on re-bagging 1,264,912 bags to conventional stores. However, the cumulative cost of Kshs.187,644,225 varies with the reported figure of Kshs.175,000,000 by Kshs.12,644,225. No reconciliation was carried out by the two entities for the variance of Kshs.12,644,225 which is omitted from the records of the Fund.

Consequently, the expenditure of Kshs.175,000,000 on gunny bags may not be fairly stated.

### **6.0 Property, Plant and Equipment**

The statement of financial position reflects a balance of Kshs.14,500,000 for property, plant and equipment. The amount of Kshs.14,500,000 is in respect of a motor vehicle purchased in May, 2019 and assigned to the Fund Chairman. However, the Chairman did

not surrender the motor vehicle back to the Fund when his term expired. Although the Fund had written to the Chairman requesting him to surrender the vehicle, the vehicle was not presented for audit inspection and its existence and status could therefore not be confirmed.

## **7.0 Inventories**

The statement of financial position reflects a balance of Kshs.734,802,500 in respect of inventories as at 30 June, 2020. Records provided by the Fund reflected an opening stock balance of Kshs.10,866,433,930 for maize. This was arrived at using both 90kg and 50kgs units of measurement meaning that there was no standard unit of measurement for maize that was used for purposes of valuing stocks. However, the stock analysis provided by the National Cereals and Produce Board reflected maize stock opening balance of Kshs.12,647,036,900 which was arrived at using standard measurement unit of 90kg bag. Although Management explained that the Fund computed its opening stock using purchase price while the Board valued its stock using the standard price, the difference of Kshs.1,780,602,970 in the value of the opening stock reflected by the two entities was not reconciled.

Further, the inventories include powdered milk worth Kshs.700,000,000 as disclosed under Note 14 to the financial statements. According to the Memorandum of Understanding signed in 2016 between the Fund and the New Kenya Co-operative Creameries (KCC) and minutes of meetings of the oversight board, the Fund resolved to transfer Kshs.700,000,000 to New KCC for purchase of surplus milk from farmers for the establishment of a strategic reserve of milk powder. However, although New KCC acknowledged receipt of the funds and recognized the liability as disclosed in its financial statements, it was not holding any stocks of milk powder on behalf of the Fund as at 30 June, 2020.

Under the circumstances, the accuracy and validity of the stock balances could not be confirmed.

## **8.0 Receivables from Exchange Transactions**

The statement of financial position reflects a balance of Kshs.8,018,869,437 under receivables from exchange transactions. As disclosed under Note 15 to the financial statements, the amount includes proceeds from sale of imported and local maize on behalf of the Fund by National Cereals and Produce Board (NCPB). However, records on sale of maize during the year were not provided. The validity of the amount of Kshs.1,153,648,823 owing from proceeds from sale of maize could, therefore, not be confirmed.

In addition, the balance of Kshs.8,018,869,437 includes an amount of Kshs.6,865,220,613 relating to receivables from the State Department for Special Programmes which has been outstanding for a long time and whose recoverability was, therefore, doubtful.

Consequently, the accuracy and recoverability of the reported receivables from exchange transactions balance of Kshs.8,018,869,437 could not be confirmed.

## 9.0 Trade and Other Payables from Exchange Transactions

The statement of financial position reflects a balance of Kshs.12,380,355,021 under trade and other payables from exchange transactions and importers of maize creditors. As disclosed in Note 17 to the financial statements, the balance includes Kshs.10,490,379,467 brought forward from the previous financial year which was not supported by any verifiable records. The breakdown of the figure of Kshs.10,490,379,467 was not provided and differed with the previous year's audited financial statements balance of Kshs.12,942,778,768 by Kshs.2,452,399,301. Further, the reported balance is net of a prior year adjustment of Kshs.155,709,403 whose nature was not explained or supported.

Consequently, the accuracy of the trade and other payables from exchange transactions balance of Kshs.12,380,355,021 could not be confirmed.

## 10.0 Presentation of the Financial Statements

The financial statements were not prepared in accordance with the requirements of the Public Sector Accounting Standards Board (PSASB). Details about the Management Team are omitted from the financial statements. Further, the summary of significant accounting policies does not include the policy and rate of depreciation used on the Fund's property, plant and equipment and no depreciation charge was made for the motor vehicle procured during the year. In addition, Management did not prepare a fixed assets movement schedule as prescribed by the Public Sector Accounting Standards Board in the reporting template.

Further, the action taken by the Management on the prior year audit issues has not been disclosed under the progress on follow up of auditor's recommendation section of the financial statements as required by the Public Sector Accounting Standards Board as the section is omitted from the financial statements.

## 11.0 Inaccuracy of the Financial Statements

### 11.1 Comparative Year Balances

The comparative year balances reflected in the financial statements differed with the balances reflected in the audited financial statements as shown below:

<b>Financial Statements Component</b>	<b>2018/2019 Audited Balance (Kshs.)</b>	<b>Comparative Figure Reported (Kshs.)</b>	<b>Variance (Kshs.)</b>
Receipt from Exchequer	0	6,150,818,866	(6,150,818,866)
Inventory	11,159,473,495	11,566,433,930	(406,960,435)
Trade and Other payables	8,770,157,208	6,317,757,907	2,452,399,301
Capital Reserves	52,737,981,617	36,593,162,751	16,144,818,866
Accumulated Deficit	42,140,933,166	23,311,754,564	18,829,178,602
<b>Total Net Assets</b>	<b>10,422,048,451</b>	<b>13,281,408,187</b>	<b>(2,859,359,736)</b>

No disclosure was provided for the restatement of the prior year balances.

### **11.2 Statement of Financial Position**

The capital reserve balance reported in the statement of financial position reduced from Kshs.36,593,162,751 as at 30 June, 2019 to Kshs.25,927,987,529 as at 30 June, 2020. The variance of Kshs.10,665,175,222 between the two figures was not supported and the amount of Kshs.25,927,987,529 was not included in the statement of changes in net assets.

Further, the accumulated deficit balance of Kshs.19,697,473,400 was also inaccurate since it was derived using the wrong opening balances.

Due to the foregoing, the figure of total net assets and liabilities of Kshs.6,230,514,128 is inaccurate.

### **11.3 Discrepancies between Financial Statements and Trial balance**

The trial balance for the year ended 30 June, 2020 reflects a total amount of Kshs.56,472,091,348 for both debit and credit balances, which includes an unsupported amount of Kshs.224,072,230 described as adjustment for previous errors. The amount was, however, contra to the general expenses balance of Kshs.34,572,230 and gunny bags expenditure of Kshs.175,000,000,00 reflected in the statement of financial performance and the property plant and equipment balance of Kshs.14,500,000 reflected in the statement of financial position but which were omitted from the trial balance.

In addition, the accumulated funding account of Kshs.36,593,162,751 and accumulated loss of Kshs.30,362,648,623 as at 30 June, 2020 reflected in the trial balance differed with the amounts of Kshs.25,927,987,529 under capital reserves and Kshs.19,697,473,401 accumulated deficit respectively reflected in the statement of financial position.

Consequently, the accuracy of the books of accounts and the financial statements of the Fund could not be confirmed.

### **12.0 Expired Agency Agreement**

As previously reported, the Government of Kenya entered into a contract with the National Cereals and Produce Board (NCPB) on behalf of the Strategic Grain Reserve Fund for procurement of maize, storage and management of stocks on 19 October, 2016 for a duration of two (2) years which has since lapsed. However, during the year under review, the National Cereals and Produce Board is indicated to have sold maize worth Kshs.7,498,573,576 while relying on an unenforceable agreement.

### **13.0 Uncertainty about Sustainability of Services**

In a letter Ref No CAB/GEN.3/1/1/VOL.XVI (51) dated 19 March, 2020 on the National Cereals and Produce Board and the Strategic Food Reserve Trust Fund reforms, the Cabinet Secretary for The National Treasury and Planning was directed by the Head of

Public Service to wind up the Strategic Food Reserve Trust Fund in accordance with section 24(9) of the Public Financial Management Act, 2012 and Regulation 209 of the Public Financial Management (National Government) Regulations, 2015.

This decision was contested in Court and the Court directed that the winding up process be suspended. However, the term of the Chairman lapsed on 20 October, 2019 while the Fund Manager was recalled by the Ministry of Devolution and ASALs leaving the Fund with no Secretariat. Further, all the cash held at the Fund's bank account has since been transferred to the Central Bank and the Fund is no longer being funded by The National Treasury.

Consequently, the ability of the Fund to sustain services to the Public is doubtful and subject of the ongoing appeal in the High Court.

#### **14.0 Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final budget total income of Kshs.10,787,189,712 and total actual income on comparable basis of Kshs.944,492,499 thus resulting into a shortfall of Kshs.9,842,697,213 or 91%. The statement reflects a budgeted expenditure figure of Kshs.944,492,499 which, is equivalent to the balance of actual expenditure on a comparable basis but differed with the amount of Kshs.10,043,549,374 reflected in the revised budget estimates by Kshs.9,099,056,875.

Consequently, it was not possible to verify the accuracy of the figures reflected in the statement of comparison of budget and actual amounts. In addition, the income deficit and under-expenditure affected the planned activities of the Fund and may have impacted negatively on service delivery to the public.

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

##### **Conclusion**

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

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

##### **Conclusion**

I do not express a conclusion on the effectiveness of internal controls, risk management and governance as required by Section 7(1)(a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for Disclaimer of Opinion] section

of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

### **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 Public Sector Accounting 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 overall governance.

In preparing the financial statements, management is responsible for assessing the Strategic Food Reserve Trust Fund ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Strategic Food Reserve Trust Fund or 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 are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Strategic Food Reserve Trust Fund 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**

My responsibility is to conduct an audit of the Strategic Food Reserve Trust Fund financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, my responsibility is to express a conclusion about 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, and that public

resources are applied in an effective way, 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. I also consider internal control, risk management and governance processes and systems in order to give an assurance on the effectiveness of internal controls, risk management and governance 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion on lawfulness and effectiveness in use of public resources, and on effectiveness of internal controls, risk management and governance.

I am independent of Strategic Food Reserve Trust Fund Management in accordance with ISSAI 130 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.

  
Nancy Gathungu  
**AUDITOR-GENERAL**

**Nairobi**

**26 May, 2021**

**STRATEGIC FOOD RESERVE TRUST FUND  
REPORTS AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2020**

**I. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2020**

	Note	2019/2020	2018/2019
		Kshs	Kshs
<b>Revenue from non-exchange transactions</b>			
Receipt from exchequer		0	6,150,818,866.00
Transfer from other Government agency		0	1,533,966,822.00
<b>Total from non-exchange transactions</b>		<b>0</b>	<b>7,684,785,688.00</b>
<b>Revenue from exchange transactions</b>			
Sales from Goods-Maize	6	7,498,573,576.00	2,078,292,160.00
<b>Total revenue</b>		<b>7,498,573,576.00</b>	<b>9,763,077,848.00</b>
<b>EXPENSES</b>			
Purchases		0	1,044,205,014.00
Repair and maintenance of M/V		0	1,109,871.00
Fumigation and storage charges	7	80,132,221.67	432,766,952.58
Transport cost & handling cost	8	1,489,589.26	181,405,562.69
General expenses	9	34,572,230.00	54,347,655.80
Board expenses	10	8,463,240.00	5,330,012.00
10 % Purchase commission & handling costs on purchases		0	57,153,903.07
Handling costs on sales & 10% commission on sales	11	782,851,081.33	220,384,063.83
Gunny bags expenditure	12	175,000,000.00	0
<b>Total expenses</b>		<b>1,082,508,362.26</b>	<b>1,996,703,034.97</b>
<b>Surplus/Deficit before tax</b>		<b>6,416,065,213.74</b>	<b>7,766,374,813.03</b>
<b>Surplus/deficit for the period</b>		<b>6,416,065,213.74</b>	<b>7,766,374,813.03</b>

**STRATEGIC FOOD RESERVE TRUST FUND  
REPORTS AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2020**

**II. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020**

	Note	2019/2020 Kshs	2018/2019 Kshs
<b><u>Assets</u></b>			
<b>Current assets</b>			
Cash and cash equivalents	13	9,842,697,212.75	1,928,976,427.65
Inventories	14	734,802,500.00	11,566,433,929.72
Receivables from exchange transactions	15	8,018,869,436.46	10,276,377,296.00
		<b>18,596,369,149.21</b>	<b>23,771,787,653.37</b>
<b>Non-current assets</b>			
Property, plant and equipment	16	14,500,000.00	0
<b>Total assets</b>		<b>18,610,869,149.21</b>	<b>23,771,787,653.37</b>
<b><u>Liabilities</u></b>			
<b>Current liabilities</b>			
Trade and other payables from exchange transactions	17	8,207,733,461.15	6,317,757,906.57
Importers of maize creditors	17	4,172,621,560.00	4,172,621,560.00
		<b>12,380,355,021.15</b>	<b>10,490,379,466.57</b>
<b>Non-current liabilities</b>			
			-
<b>Total liabilities</b>		<b>12,380,355,021.15</b>	<b>10,490,379,466.57</b>
<b>Net assets</b>		<b>6,230,514,128.06</b>	<b>13,281,408,186.80</b>
Capital Reserves		25,927,987,528.60	36,593,162,751.00
Accumulated Deficit		(19,697,473,400.54)	(23,311,754,564.20)
<b>Total net assets and liabilities</b>		<b>6,230,514,128.06</b>	<b>13,281,408,186.80</b>

**STRATEGIC FOOD RESERVE TRUST FUND  
REPORTS AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2020**

**III. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2020**

	<b>Accumulated Capital Reserves Kshs</b>	<b>Accumulated surplus/ deficit Kshs</b>	<b>Total Kshs</b>
<b>Balance as at 1 JULY 2018</b>	<b>36,593,162,751.00</b>	<b>-31,078,129,377.23</b>	<b>5,515,033,373.77</b>
Surplus(deficit)for the period		7,766,374,813.03	7,766,374,813.03
<b>Balance as at 30 JUNE 2019</b>	<b>36,593,162,751.00</b>	<b>-23,311,754,564.20</b>	<b>13,281,408,186.80</b>
<b>Balance as at 1 JULY 2019</b>	<b>36,593,162,751.00</b>	<b>-23,311,754,564.20</b>	<b>13,281,408,186.80</b>
Surplus(deficit)for the period		6,416,065,213.74	6,416,065,213.74
<b>Balance as at 30 JUNE 2020</b>	<b>36,593,162,751.00</b>	<b>(16,895,689,350.46)</b>	<b>19,697,473,400.54</b>

**STRATEGIC FOOD RESERVE TRUST FUND  
REPORTS AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2020**

**IV. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020**

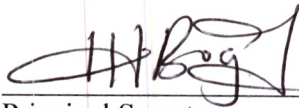
	Note	2019/2020 Kshs	2018/2019 Kshs
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Transfers from other government agency		0	1,533,966,822.00
Government Grants received during the year		0	6,150,818,866.00
Other Transfers- bulk deposit		0	182,000.00
Maize sales proceeds		8,858,213,284.00	0
Previous year's Surplus		1,928,976,427.65	
<b>Total Receipts</b>		<b>10,787,189,711.65</b>	<b>7,684,967,688.00</b>
<b>Payments</b>			
Board expenses	10	8,463,240.00	5,330,012.00
Agency fees	18	878,808,303.00	
Repair and Maintenance of M/V		0	1,109,872.00
General expenses	9	34,572,230.00	54,347,655.00
Payment of pending bills-farmers/commodity house		8,148,725.90	1,800,000,000.00
Transport cost	8	0	69,077,512.35
Purchase of Gunny bags-NCPB	12	0	175,000,000.00
Purchase of Maize and pending bill payment-NCPB		0	3,655,027,275.00
<b>Total payments</b>		<b>929,992,498.90</b>	<b>5,759,892,325.80</b>
<b>Net cash flows from operating activities</b>		<b>9,857,197,212.75</b>	<b>1,925,075,362.20</b>
<b>Cash flows from investing activities</b>			
Purchase of M/v	16	(14,500,000.00)	0
<b>Net cash flows used in investing activities</b>		<b>(14,500,000.00)</b>	<b>18,287,773,060</b>
<b>Cash flows from financing activities</b>			
Government Grants received during the year		0	0
<b>Net cash flows used in financing activities</b>		<b>0</b>	<b>28,281,773,060</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>9,842,697,212.75</b>	<b>-4,725,613,502.00</b>
Cash and cash equivalents at 1 JULY 2019		1,928,976,427.65	3,901,065.45
<b>Cash and cash equivalents at 30 JUNE 2020</b>		<b>9,842,697,212.75</b>	<b>1,928,976,427.65</b>

**STRATEGIC FOOD RESERVE TRUST FUND  
REPORTS AND FINANCIAL STATEMENTS  
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**V. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS  
FOR THE YEAR ENDED 30 JUNE 2020**


	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2019-2020	2019-2020	2019-2020	2019-2020	2019-2020
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs
Maize sale proceeds	8,858,213,284.00	0	8,858,213,284.00	0	8,858,213,284.00
Previous year's Surplus	1,928,976,427.65	0	1,928,976,427.65	944,492,498.90	984,483,928.75
<b>Total income</b>	<b>10,787,189,711.65</b>	<b>0</b>	<b>10,787,189,711.65</b>	<b>944,492,498.90</b>	<b>9,842,697,212.75</b>
Expenses					
Compensation of employees (board expenses)	8,463,240.00	0	8,463,240.00	8,463,240.00	0
Purchase of M/V	14,500,000.00	0	14,500,000.00	14,500,000.00	0
Agency fees	878,808,303.00	0	878,808,303.00	878,808,303.00	0
Farmers' pending bill	8,148,724.90	0	8,148,724.90	8,148,724.90	0
General Expenses	34,572,230.00	0	34,572,230.00	34,572,230.00	0
<b>Total expenditure</b>	<b>944,492,498.90</b>	<b>0</b>	<b>944,492,498.90</b>	<b>944,492,498.90</b>	<b>0</b>
<b>Surplus for the period 2019/20</b>	<b>9,842,697,212.75</b>	<b>0</b>	<b>9,842,697,212.75</b>	<b>0</b>	<b>9,842,697,212.75</b>

The Financial Statements set out on pages 16 to 20 were signed on behalf of the Fund by:



Principal Secretary  
Name: **Prof. Hamadi I. Boga, PHD**

Date.....



Principal Accountant  
Name: **Wesley K. Kiplimo**  
ICPAK Member Number: **13250**

Date.....

**STRATEGIC FOOD RESERVE TRUST FUND  
REPORTS AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2020**

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**NOTES TO THE FINANCIAL STATEMENTS**

**1. GENERAL INFORMATION**

Strategic Grain Reserve was established in 2002 under the legal Notice No. 55 of 2002. It has since changed from Strategic Grain Reserve Trust fund to Strategic Food Reserve Trust Fund and derives its authority and accountability from Legal Notice No. 15 of February 2015. The SFRTF is wholly owned by the Government of Kenya and is domiciled in Kenya. The SFRTF's principal activity was to maintain a physical stock of 4 million bags of maize or a cash equivalent. The mix of grain and cash ensures that on the one hand, the Government was able to save lives in the case of an emergency by mobilizing food to areas not well served by grain markets. On the other hand, cash reserves allow the government to purchase the commodity in areas with well-functioning markets when an emergency occurs. Other food commodities besides maize have been incorporated into the Reserve. This includes; rice, beans, powder milk, fish and canned beef.

**2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION**

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the SFRTF's accounting policies. The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the SFRTF.

The financial statements have been prepared in accordance with the PFM Act and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

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**NOTES TO THE FINANCIAL STATEMENTS**

**3. ADOPTION OF NEW AND REVISED STANDARDS**

**i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2020**

<b>Standard</b>	<b>Impact</b>
<b>IPSAS 40:</b> Public Sector Combinations	<b>Applicable: 1<sup>st</sup> January 2019</b> The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only). Business combinations and combinations arising from non-exchange transactions are covered purely under Public Sector combinations as amalgamations.

**ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2020**

<b>Standard</b>	<b>Effective date and impact:</b>
<b>IPSAS 41:</b> Financial Instruments	<b>Applicable: 1<sup>st</sup> January 2022:</b> The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an SFRTF's future cash flows. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by: <ul style="list-style-type: none"> <li>• Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held;</li> <li>• Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and</li> <li>• Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an SFRTF's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.</li> </ul>

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<b>Standard</b>	<b>Effective date and impact:</b>
<b>IPSAS 42:</b> Social Benefits	<b>Applicable: 1<sup>st</sup> January 2022</b> The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting SFRTF provides in its financial statements about social benefits. The information provided should help users of the financial statements and general-purpose financial reports assess: (a) The nature of such social benefits provided by the SFRTF; (b) The key features of the operation of those social benefit schemes; and I The impact of such social benefits provided on the SFRTF's financial performance, financial position and cash flows.

**iii. Early adoption of standards**

The SFRTF did not early – adopt any new or amended standards in year 2019.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a) Revenue recognition**

**i) Revenue from non-exchange transactions**

**Transfers from other government entities**

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the SFRTF and can be measured reliably. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds

**ii) Revenue from exchange transactions**

***Sale of goods***

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the SFRTF.

**b) Budget information**

The SFRTF's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial

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statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same

**NOTES TO THE FINANCIAL STATEMENTS**

basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section 2 of these financial statements.

**c) Current income tax**

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the SFRTF operates and generates taxable income.

Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

**d) Inventories**

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

**STRATEGIC FOOD RESERVE TRUST FUND  
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Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the SFRTF.

**NOTES TO THE FINANCIAL STATEMENTS**

**e) Provisions**

Provisions are recognized when the SFRTF has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the SFRTF expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

**f) Contingent liabilities**

The SFRTF does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

**g) Contingent assets**

The SFRTF does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the SFRTF in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

**h) Nature and purpose of reserves**

The SFRTF creates and maintains reserves in terms of specific requirements.

**i) Changes in accounting policies and estimates**

The SFRTF recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

**j) Related parties**

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The SFRTF regards a related party as a person or an SFRTF with the ability to exert control individually or jointly, or to exercise significant influence over the SFRTF, or vice versa.

**NOTES TO THE FINANCIAL STATEMENTS**

Members of key management are regarded as related parties and comprise the Accounting Officer, the CEO and senior managers.

**k) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

**l) Comparative figures**

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

**m) Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2020.

**5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION  
UNCERTAINTY**

The preparation of the SFRTF's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

**Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The SFRTF based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about

**STRATEGIC FOOD RESERVE TRUST FUND  
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future developments may change due to market changes or circumstances arising beyond the control of the SFRTF. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

**NOTES TO THE FINANCIAL STATEMENTS**

**Useful lives and residual values**

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the SFRTF
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

**Provisions**

Provisions were raised and management determined an estimate based on the information available.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

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**NOTES TO THE FINANCIAL STATEMENTS**

**Disclosure notes**

**6. SFR maize sale for the FY 2019/2020**

<b>Product Description</b>	<b>2019/2020 Sales (LCY) kshs</b>	<b>2018/2019 Sales (LCY) kshs</b>
W/Maize Grade 4B High Heat Dmg (Bulk)		142,196,184.00
W/Maize Grade 4B High Heat Dmg (Jute Bag)		16,827,720.00
White Maize in Bulk 50kg		54,087,336.00
Imported Maize Bulx50Kgs		153,529,600.00
Imported W/Maize *50Kgs		432,796,960.00
Imported W/Maize *100Kgs		5,867,300.00
W/Maize Grade II*50Kg(Jute)		669,804,620.00
W/Maize Grade II*50Kgs(PP)		370,360,540.00
<b>Sub-total</b>		<b>1,845,470,260.00</b>
<b>RELIEF FOOD SALES</b>		
Imported W/Maize X 50 Kg		178,796,600.00
Imported W/Maize X 100 Kg		192,000.00
White Maize Grade II X 50 kgs Jute		5,200,000.00
White Maize Grade II X 50 kgs pp		48,633,300.00
<b>Sub-total</b>		<b>232,821,900.00</b>
<b>Grand Total</b>	<b>7,498,573,576.00</b>	<b>2,078,292,160.00</b>

**7. Storage and fumigation charges**

<b>Description</b>	<b>2019/2020</b>	<b>2018/2019</b>
Storage and fumigation	69,166,326.43	373,074,959.12
16% VAT	10,965,895.24	59,691,993.46
<b>Total</b>	<b>80,132,221.67</b>	<b>432,766,952.58</b>

**8. Transport cost and handling cost**

<b>Description</b>	<b>2019/2020</b>	<b>2018/2019</b>
Stock transport costs& handling expenses – Local Maize	1,468,233.14	178,804,766.09
16% VAT	21,356.12	2,600,796.60
<b>Total</b>	<b>1,489,589.26</b>	<b>181,405,562.69</b>

**9. General expenses**

<b>Description</b>	<b>2019/2020</b>	<b>2018/2019</b>
General Expenses	34,572,230.00	54,347,655.80
<b>Total</b>	<b>34,572,230.00</b>	<b>54,347,655.80</b>

**10. Board expenses**

<b>Description</b>	<b>2019/2020</b>	<b>2018/2019</b>
Board expenses	8,463,240.00	5,330,012.00
<b>Total</b>	<b>8,463,240.00</b>	<b>5,330,012.00</b>

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**11. Handling cost on sales and 10% commission 2018/2019**

Description	2019/2020	2018/2019
Sales commission and handling costs to other depots	782,851,081.33	220,384,062.83
<b>Total</b>	<b>782,851,081.33</b>	<b>220,384,062</b>

**12. Purchase Of Jute Bag/Gunny bags**

AMOUNT KSHS	M/RECEIPT NO:	DESCRIPTION
175,000,000.00	52A4283672	Purchase Of 700,000 (90kg bag) Jute Bags

**13. Detailed analysis of the cash and cash equivalents**

	2019/2020	2018/2019
<b>Financial institution</b>		<b>KShs</b>
Central Bank of Kenya	9,842,697,212.75	1,928,976,427.65
<b>Total</b>	<b>9,842,697,212.75</b>	<b>1,928,976,427.65</b>

**14. Inventories**

	2019/2020	2018/2019
<b>Description</b>	<b>Shs</b>	<b>Shs</b>
Bags of maize (closing stock)	34,802,500.00	10,866,433,929.72
Powdered Milk – KCC	700,000,000.00	700,000,000.00
<b>Total inventories</b>	<b>734,802,500.00</b>	<b>11,566,433,929.72</b>

**15. (a) Receivables from exchange transactions**

Product Description	Sales (LCY) 2019/20	Sales (LCY) 2018/19
Sale of maize for the imported maize	434,996,371.46	0
Sale of maize for the period	718,652,452.00	2,078,292,160.00
Previous debtors-state department for special programmes	6,865,220,613.00	6,865,220,613.00
Amount owed to SFR by NCPB (20,353,837,593- (18,287,773,060 + 908,200,000))	0	1,157,864,523.00
Transfer to NCPB for purchase of gunny bags	0	175,000,000.00
<b>Total receivables</b>	<b>8,018,869,436.46</b>	<b>10,276,377,296.00</b>

**16. Purchase Of Motor vehicle**

	2019/2020	2018/2019
<b>Description</b>	<b>Shs</b>	<b>Shs</b>
Motor vehicle	14,500,000.00	0

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**17. Trade and other payables from exchange transactions**

<b>Description</b>	<b>Kshs 2019/2020</b>	<b>Kshs 2018/2019</b>
Balance b/d	10,490,379,466.57	13,181,494,364.00
<b>NCPB debt on-</b>	0	
a) Storage and fumigation	80,132,221.67	432,766,952.58
b) transport costs& handling expenses – Local Maize	1,489,589.26	181,405,562.69
c) Sales commission and handling costs to other depots	782,851,081.33	220,384,062.83
d) Purchase commission and handling cost-local maize	0	57,153,903.07
e) Prior period adjustments (10,490,379,466.57-10,334,670,063.55)	(155,709,403.02)	0
Unpaid Local SFR maize farmers and other purchase services i.e. county cess	1,181,212,065.34	905,192,109.55
<b>Total trade payables to NCPB</b>	<b>12,380,355,021.15</b>	<b>10,490,379,466.57</b>

**18. Agency fees**

	<b>2019/2020</b>	<b>2018/2019</b>
<b>Description</b>	<b>Shs</b>	<b>Shs</b>
<b>Agency fees payment</b>	<b>878,808,303.00</b>	<b>0</b>

**STRATEGIC FOOD RESERVE TRUST FUND  
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**Trial balance for the period ended 30 June 2020**

	Debit		Credit	
	2019/2020	2018/2019	2019/2020	2018/2019
	Kshs.	Kshs.	Kshs.	Kshs.
Sales	0		7,498,573,576.00	2,078,292,160.00
purchase	0	1,044,205,014.00		
Storage and fumigation	69,166,326.43	373,074,959.12		
16% VAT	10,965,895.24	59,691,993.46		
Stock transport costs& relocation expenses	1,468,233.14	178,804,766.09		
16% VAT	21,356.12	2,600,796.60		
Sales commission and handling	674,871,621.84	190,407,761.66		
16% VAT	107,979,459.49	29,976,301.17		
Purchase commission and handling	0	49,443,551.20		
16% VAT	0	7,710,351.87		
Previous errors adjustment	224,072,230.00	0		
SFR board expenses, Maize import task force expense	8,463,240.00	5,330,012.00		
Stocks	734,802,500.00	11,566,433,929.72		
Bank	9,842,697,212.75	1,928,976,427.65		
Accounts receivable	8,018,869,436.46	10,276,377,296.00		
Accounts Payable		0	12,380,355,021.15	10,490,379,466.57
Accumulated Funding		0	36,593,162,751.00	36,593,162,751.00
Surplus	6,416,065,213.74	7,766,374,813.03		
Accumulated Loss as at 1 <sup>st</sup> July 2018	30,362,648,622.94	23,311,754,564.20		0
<b>Total</b>	<b>56,472,091,348.15</b>	<b>49,161,834,377.57</b>	<b>56,472,091,348.15</b>	<b>49,161,834,377.57</b>