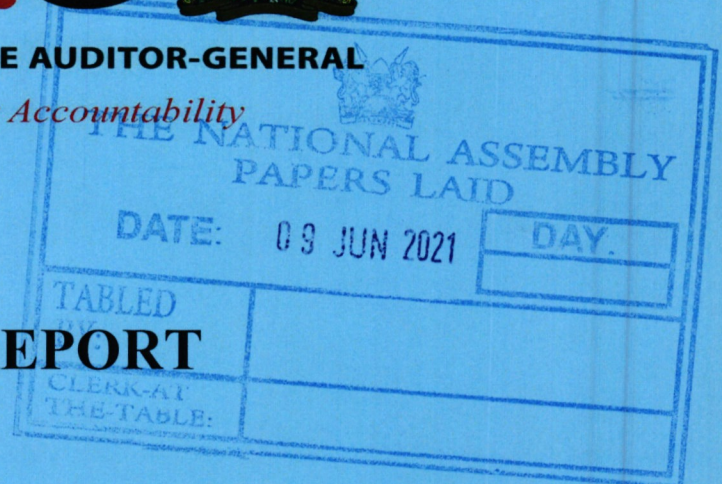


REPUBLIC OF KENYA



**OFFICE OF THE AUDITOR-GENERAL**

*Enhancing Accountability*



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**REPORT**



**OF**

**THE AUDITOR-GENERAL**

**ON**

**STATE DEPARTMENT FOR PLANNING**

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

**THE NATIONAL ASSEMBLY**  
**PAPERS LAID**

**DATE: 09 JUN 2021**

**COMMODITIES FUND**  
*Wednesday*

TABLED BY:	<i>Leadership majority party</i>
NAME OF MEMBER	<i>Halima Ahmed</i>

**OFFICE OF THE AUDITOR GENERAL**  
**P. O. Box 30084 - 00100, NAIROBI**  
**REGISTRY**

**28 APR 2021**

**RECEIVED**

**Commodities Fund**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2020**

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

## Table of Contents

KEY FUND INFORMATION AND MANAGEMENT.....	i
BOARD MEMBERS .....	iv
BOARD COMMITTEES.....	x
MANAGEMENT TEAM .....	xi
CHAIRMAN'S STATEMENT .....	xiv
REPORT OF THE MANAGING TRUSTEE .....	xvii
CORPORATE GOVERNANCE STATEMENT.....	<b>Error! Bookmark not defined.</b>
MANAGEMENT DISCUSSIONS AND ANALYSIS.....	xxv
CORPORATE SOCIAL RESPONSIBILITY STATEMENT .....	xxxii
REPORT OF THE DIRECTORS.....	xxxiii
STATEMENT OF TRUSTEES' RESPONSIBILITIES .....	xxxiv
REPORT OF THE INDEPENDENT AUDITORS ON THE COMMODITIES FUND .....	xxxv
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30TH JUNE 2020 .....	1
STATEMENT OF FINANCIAL POSITION AS AT 30 <sup>TH</sup> JUNE 2020 .....	2
STATEMENT OF CHANGES IN NET ASSETS .....	3
STATEMENT OF CASH FLOWS AS AT 30TH JUNE 2020 .....	4
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS.....	5
NOTES TO THE FINANCIAL STATEMENTS .....	8
PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS.....	34
Appendix 1: PROJECTS IMPLEMENTED BY THE COMFUND .....	62
Appendix 11: INTER-ENTITY TRANSFERS .....	62

## **I. KEY FUND INFORMATION AND MANAGEMENT**

### **(a) Background information**

The Commodities Fund (Comfund) is an agency under the Ministry of Agriculture, Livestock and Fisheries. It was established under section 9(2) of the Crops Act of 2013 (Amended in May 2016) and operationalized on 1<sup>st</sup> August 2014. It is the successor of the Coffee Development Fund and the Sugar Development Fund. The Comfund is represented by the Cabinet Secretary for Agriculture, Livestock and Fisheries who is responsible for the General Policy and strategic direction of the Comfund.

Its mandate is to provide sustainable, affordable and accessible credit and advances to farmers for value chain development of crops regulated by Agriculture and Food Authority (AFA); under which former crop regulatory boards and authorities were collapsed into directorates.

During the period under review, the affairs of the Comfund were run by the Board of Trustees. The Crops Act 2013, Section 9(3) states that the Comfund shall be run by Board of Trustees, appointed by the Cabinet Secretary. The Managing Trustee is the Secretary to the Board and Chief Executive Officer of the Comfund. The Board is assisted by a management team headed by the Managing Trustee with departmental managers comprising of, Credit Manager, Finance Manager, Legal Manager and ICT Manager. Other heads include, Internal Auditor, Human Resource Officer, the Supply Chain Officer and Corporate Communications Officer.

### **(b) Principal Activities**

The purpose of the Comfund is to provide sustainable, affordable credit and advances to farmers, co-operative societies, millers and out grower institutions for farm development, farm inputs, farming operations, farm machinery, factory rehabilitation and price stabilization.

The mission of the Comfund is to provide affordable and accessible credit for development of crops sub-sector.

Arising from the mandate, the objectives of the Comfund are:

- Mobilize resources from the government and development partners for onward lending to farmers.
- Develop loan products for scheduled crops as per Crops Act, 2013.
- Provide credit and Advances for all scheduled crops and subsequently collect repayments arising from disbursed credit facilities.
- Facilitate capacity building of farmers.
- Facilitate price stabilization for scheduled crops.

### **(c) Key Management**

The Comfund's day-to-day management is under the following key organs:

- i) The Board of Trustees comprising of three committees namely; Finance, staff and General Purpose Committee, Credit Committee and Audit and Governance Committee.
- ii) The Managing Trustee who is the Chief Executive and Secretary to the Board.
- iii) The Management team comprising of the Managing Trustee and eight heads of departments and section

### **(d) Fiduciary Management**

The Key management personnel who held office during the financial year ended 30<sup>th</sup> June 2020 and who had direct fiduciary responsibility were:

i) Managing Trustee	- Nancy C. Cheruiyot
ii) Finance Manager	- Silas Nyaga
iii) Credit Manager	- Roseline Wambura
iv) Legal Manager	- Nesline Okiko
v) Procurement Officer	- Tomno Kibichii
vi) ICT Manager	- Solomon Kirwa
vii) Human Resources Officer	- Rose Ndiritu
viii) Corporate Communications Officer	- James Singa
ix) Internal Audit Manager	- Edwin Okiah.

### **(e) Fiduciary Oversight Arrangements**

The Comfund has developed key fiduciary oversight arrangements in all areas of operations which include:

#### **i) Finance and Audit Activities**

The Comfund has developed key policies in all its operational area and complies with the requirements of the Public Financial Management Act 2012 in the management of public funds. Annual operational and financial budget is prepared and approved by the relevant authority before use by the management to guide resource application. Bank accounts are operated by the officers of the Comfund who are appointed and authorized by the Board. Internal controls in place do not allow an officer of the Comfund to initiate and complete transaction his/her own. The internal audit department of the Comfund reviews operational and financial activities of Comfund independently and reports directly to the Audit Committee of the Board. The Comfund is on annual basis audited by the Auditor General who reports his findings to the National Assembly.

#### **ii) Credit Administration**

The Comfund has developed an elaborate credit policy that guides credit administration. Credit approvals is vested on committees of which the management credit committee approve loans up to Kshs.5million while approvals for loans exceeding Management limit are escalated to the Credit Committee of the Board.

#### **iii) Overall Supervision by the Board**

The Board of Trustees has composed three committees which meets at least once quarterly to deliberate and guide on matters presented before them by the management. The Board committees then reports to the full Board which also meets at least once quarterly. The Board is appraised on the performance of the Comfund during the quarterly meetings.

### **(f) Comfund Headquarters**

2<sup>nd</sup> floor, Railway Headquarters Building - Block D  
Workshop Road  
Off Haile Selassie Avenue  
P.O. Box 52714 - 00200  
City Square  
**NAIROBI, Kenya**

**(g) Comfund Contacts**

Phone : +254-20-210806/7/9  
Mobile : +254-770-587333/355  
          +254-737-204278/9  
Fax : +254-20-2210816  
E-mail : info@codf.co.ke  
Website : www.codf.co.ke

**(h) Comfund Bankers**

Co-operative Bank of Kenya Ltd  
Haile Selassie Avenue  
P.O. Box 48231-00100  
**NAIROBI, Kenya**  
Tel : +254-20-3276000  
Fax : +254-20-219821  
Website: www.co-opbank.co.ke


**(i) Independent Auditors**

Auditor General  
Office of the Auditor-General  
Anniversary Towers, University Way  
P. O. Box 30084  
GPO 00100  
**NAIROBI, Kenya**

**(j) Principal Legal Adviser**

The Attorney General  
State Law Office  
Harambee Avenue  
P.O. Box 40112  
City Square 00200  
**NAIROBI, Kenya**

**2. BOARD MEMBERS**

	Provide a concise description of each Director's date of birth, key qualifications and work experience
<p>1. Hon. Samson Mwanicha Okioma</p> 	<p>Hon. Okioma was born on 15<sup>th</sup> August 1951 and appointed Chairman of the Board of Trustees on 14<sup>th</sup> December, 2018. He holds a MSc. Agric. (Pl. Path) and B.Sc. (Hons) - Botany &amp; Biochemistry from University of Nairobi. He is finalizing his PhD from Egerton University – Thesis: Distribution, Characterization and Control of Mycotoxins (Aflatoxins) of Maize in Kenya. As a member of Pan African Parliamentarians, he had special training on climate change in Algiers, Algeria.</p> <p>He has wealth of experience in agriculture including agricultural scientific research in sugarcane agronomy and horticulture. He served as Assistant Agricultural Manager at Muhoroni Sugar Company and as Agricultural Manager at Pan Vegetable Processors in Naivasha.</p> <p>He was a Member of Parliament (MP) for Kitutu Masaba Constituency from 2002 to 2007 and was Kenya Member of Parliament, Pan African Parliament, Midrand, Johannesburg, South Africa from 2004 to 2007. As an MP, he was a member of the Committee of Agriculture, Livestock and Co-operatives of Parliament and was a member of the Agriculture, Livestock and Environment Committee of the Pan African Parliament.</p> <p>He previously served in the Board of Kenya Institute for Public Policy Research and Analysis (KIPPRA).</p> <p>He has also authored several books intended to alleviate poverty among the youth and women in Kenya.</p>

<p>2. Prof. Eric Okoth Ogur, PhD</p> 	<p>Professor Ogur was born on 17<sup>th</sup> December, 1971. He received his PhD. in Engineering from University of Warwick in 2007.</p> <p>Prior to joining the Technical University of Kenya in 2011, he worked as a Research Fellow at the Warwick Manufacturing Group in the University of Warwick and as an Engineer with Proctor and Gamble GmbH in Frankfurt, Germany. Professor Ogur is also the Director, Centre for Engineering Innovation and Production.</p> <p>His other duties and responsibilities include: Reviewer, Kenya Journal of Technical and Vocational Education and Training, Member, Editorial Board, Africa Journal of TVET and Member, Board of Governors, Bushiangala Technical Training Institute where he is also the Chair of the Education and Training Committee. Prof. Ogur left the Board on 6<sup>th</sup> November, 2019 after expiry of three years term.</p>
<p>3. Purity Karariet Sein</p> 	<p>Purity K. Sein was born on 26<sup>th</sup> June 1984 and appointed in the Board of Trustees of Commodities Fund on 7<sup>th</sup> November, 2016. She a holder of Bachelor of Science (Chemistry, Botany &amp; Zoology) at the University of Agra-India (Specialized Biotechnology – Forensic Science).</p> <p>She is a trained investigator coupled with management and social auditing skills (worked as An Anti- corruption Officer). She also worked as Law enforcement with Nema under the Ministry of Environment. She is a former Director of National Housing Corporation and Chairperson, Audit Committee.</p> <p>She is a National Security Committee Member on CPS, Ministry of Interior and National Government Coordination. Purity left the Board on 6<sup>th</sup> November,2020 after expiry of three years term.</p>
<p>4. Henry Huka Duba</p>	<p>Mr. Henry H. Duba was born 11<sup>th</sup> November, 1961 and appointed to the Board on 7<sup>th</sup> November,2016 .He is a holder of Masters’ in Public Health.</p>

	<p>His other qualification include: Higher Diploma in Community, Post-Graduate Certificate in Health Services Management, Diploma in Environmental Health Sciences, Certificate, Health Emergencies in Large Populations, Diploma in Public Health, Certificate, grants management. He is a Public Health and Nutrition specialist.</p> <p>He has over 18 years' experience in humanitarian services as Country Director, Chief of Party and Director of Food Security and Nutrition Programs. He is Managing grants of US\$ 50M (Kshs. 5b). Henry left the Board on 6<sup>th</sup> November, 2019 after expiry of three years term.</p>
<p>5. Robert Mugambi Murithi</p> 	<p>Mr. Robert M. Murithi was born on 20<sup>th</sup> August 1968 and re-appointed to the Board of Trustees of Comfund on 7<sup>th</sup> November, 2019 after serving for a three year term. He holds a Master of Arts degree in Economics, BA degree in Economics and Finance and is part qualified Certified Public Accountant. He is currently pursuing a Ph.D. degree in Economics at the University of Nairobi and has completed course work and is now finalising on the dissertation.</p> <p>He has got over twenty years' experience in development and investment finance within the East African region, having worked with East African Development Bank for the last eighteen years. He has vast experience and training in credit analysis and project monitoring and evaluation. He is currently an Advisory Board Member for Business Partners International Limited and a Limited Partner representative in Catalyst Fund LLC. He has previously served as a board member in several other companies within the East Africa region.</p>

<p>6. Hon. Daniel Karaba Dickson, CBS</p>	<p>Hon Karaba, was born on 12<sup>th</sup> December, 1948 and appointed in the Board of Trustee of Commodities Fund effective 7<sup>th</sup> November 2019. He holds a Bachelor of Arts (Ed.) degree from University of Nairobi.</p>
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He is a politician and a professional teacher.

He served as Senator of Kirinyaga County in 2013 for a period of 5 years and as a one term Member of Parliament for Kirinyaga County in 2003. Hon Karaba served as a Chairman of Education Committee in the 9<sup>th</sup> Parliament and held the same role in the 11<sup>th</sup> Parliament as the Chairman of the Senate Education Committee. He was also a member of Parliamentary Liaison Committee in the 9<sup>th</sup> Parliament.

He taught in many secondary schools and was promoted to a deputy principal and later a principal of various schools in Kenya including, Kagumo High School, Highway Secondary School, Kianyaga High School, Kirimara High School and Njegas Secondary School.

Hon. Karaba was director of Nyayo Tea Zone from 2007 to 2013. He was Chairman of Sports Association in Kirinyaga County and Chairman of Kirinyaga District Head Teachers Association among other roles.

<p>7.Eng. Kipkoros Kandie</p> 	<p>Eng. Kipkoros Kandie was appointed to the Board of Trustees on 7<sup>th</sup> November 2019 as an Independent Trustee. He was born on 26<sup>th</sup> April 1971. Kandie holds an M.Sc. in Sanitary Engineering from UNESCO – IHE, Delft, The Netherlands (2003) and a B.Sc. in Civil Engineering from The University of Nairobi (1994). He is currently pursuing Ph.D studies in Engineering at The University of Nairobi, where he also is a Lecturer. Kandie is a Member of both Engineers Board of Kenya and The Institute of Engineers of Kenya.</p> <p>Eng. Kandie has a wealth of experience in Water Supply, Sanitation and Infrastructure programmes. These cover widely Teaching, Research, Students’ Supervision, Infrastructure Projects Consulting, Supervision and Implementation. He has over 25 years’ experience in several Private, Governmental, Regional, Multi-Disciplinary, Multi-Sector Projects covering Conceptualization, Inception, Feasibility Studies, Designs, Documentation, and Supervision.</p> <p>Kandie is involved in Leadership and Governance formations in Schools and Community. He has previously served as an Executive Member of Universities Academic Staff Union (UASU) dealing with welfare issues of members. He also serves as an Expert in The Kenya Bureau of Standards Water and Sanitation Standards Committee.</p>
<p>1. Ms. Doreen Kanana Mutua</p> 	<p>Ms. Doreen Kanana Mutua was born on 1<sup>st</sup> January, 1990 and appointed to the Board of Trustees on 30<sup>th</sup> April, 2020 as an Independent Trustee. Doreen holds B. Com (Finance) and MBA (Finance) from Meru University of Science and Technology. She is a Chartered Public Accountant.</p> <p>Ms. Mutua is currently the Managing Director of Boxcar Global Limited.</p> <p>While working as CEO of Donaris Investments she helped grow the SME business from a turnover of Kshs 500,000/- to turnover of around Kshs 20 Million.</p> <p>At Meru County Assembly, she pioneered the establishment of a community based group known as Friends of Obosani Self-help group (2016) in a view to empower the members through loaning facility and housing. The group now owns various properties and is able to loan each member Kshs 500,000/- at a low interest rate of 10%.</p>




<p>2. Ms. Alice Kwamboka Nyariki</p> 	<p>Ms Alice Nyariki was appointed as a member of the Board of Trustees as representative of the National Treasury on 4<sup>th</sup> October 2019. She holds a Bachelor of Arts Degree in Sociology and an MSC in Risk Management.</p> <p>She is currently a Senior Deputy Director of Pensions. She has extensive Knowledge in Public Pension Policies, Planning and budgeting.</p>
<p>3. Mr. Eliud Mathu Kamau /*</p> 	<p>Mr. Eliud M. Kamau was born on 27<sup>th</sup> August, 1968. And appointed to the Board on 7<sup>th</sup> November, 2016 and re-appointed in November 2019 after completion of three year term. He is a holder of Master of Science in Agricultural and Applied Economics (Egerton University).</p> <p>He has twenty four (24) years' experience in Ministry of Agriculture, Livestock, Fisheries and Irrigation. He is an Assistant Director of Agriculture (Head/State Corporations' Unit, State Department for Crops Development).</p>





## BOARD COMMITTEES

Name of the Committee	Members
Finance, Human Resource & General Purpose Committee	<ol style="list-style-type: none"> <li>1. Hon. Daniel Karaba ... Joined on 11<sup>th</sup> December, 2019</li> <li>2. Mr. Henry Huka Duba, Chairperson---Retired on 6<sup>th</sup> November, 2019</li> <li>3. Ms. Purity Sein Karariet --- Retired on 6<sup>th</sup> November, 2019</li> <li>4. Mr. Eliud Mathu Kamau ... Left the on 6<sup>th</sup> November, 2019</li> <li>5. Alice Kwamboka Nyariki ... Joined on 11<sup>th</sup> December, 2019</li> <li>6. Robert Mugambi Muriithi ... Joined on 11<sup>th</sup> December, 2019.</li> </ol>
Credit Committee	<ol style="list-style-type: none"> <li>1. Mr. Robert. M. Murithi ... Chairperson from May 2017</li> <li>2. Prof. Eric Ogur ... Retired on 6<sup>th</sup> November, 2019</li> <li>3. Mr. Eliud Mathu ... Joined in May,2017</li> <li>4. Hon. Daniel Karaba ... Joined on 11<sup>th</sup> December,2019</li> <li>5. Eng. Kipkoros Kandie ... Joined on 11<sup>th</sup> December,2019</li> </ol>
Audit and Governance Committee	<ol style="list-style-type: none"> <li>1. Eng. Kipkoros Kandie, Chairperson ... Joined on 11<sup>th</sup> December, 2019</li> <li>2. Ms. Purity Sein Karariet, Chairperson --- Retired on 6<sup>th</sup> November, 2019</li> <li>3. Prof. Eric Ogur ... Retired on 6<sup>th</sup> November, 2019</li> <li>4. Ms. Alice Nyariki ... Joined 7<sup>th</sup> November, 2019</li> <li>5. Mr. Eliud Mathu ... Joined on 11<sup>th</sup> December, 2019</li> </ol>

### 3. MANAGEMENT TEAM

The ComFund's day-to-day management is under the following key organs:

<p><b>1. Ms Nancy Chelangat Cheruiyot, FCCA</b></p> 	<ul style="list-style-type: none"> <li>• <b>Area of Responsibility:</b> Interim Managing Trustee (Accounting Officer).</li> <li>• <b>Academic Qualification:</b> MBA-Financial Management, Bachelor of Arts - Economics &amp; Sociology.</li> <li>• <b>Professional Qualification:</b> ACCA. Doctor of philosophy in Business Administration (on-going).</li> </ul>
<p><b>2. Ms Roseline Wambura</b></p> 	<ul style="list-style-type: none"> <li>• <b>Area of Responsibility:</b> Credit.</li> <li>• <b>Academic Qualification:</b> Bachelor of Commerce, MBA Project Management</li> <li>• <b>Professional Qualification:</b> ACCA- ongoing.</li> </ul>
<p><b>3. Mr. Solomon Kirwa</b></p> 	<ul style="list-style-type: none"> <li>• <b>Area of Responsibility:</b> ICT.</li> <li>• <b>Academic Qualification:</b> M.Sc. in I.T(Systems Security &amp; Audit), MBA Finance Option, Bachelor of Science in IT.</li> <li>• <b>Professional Qualification:</b> PRINCE2, ITIL, CCNA, CPA (K) Oracle OCP, MCSE &amp; JAVA Programmer.</li> </ul>
<p><b>4. Mr. Silas Nyaga</b></p> 	<ul style="list-style-type: none"> <li>• <b>Area of Responsibility:</b> Finance and Accounting.</li> <li>• <b>Academic Qualification:</b> MBA- Finance.</li> <li>• Bachelor of Commerce in Accounting.</li> <li>• <b>Professional Qualification:</b> CPA (K), CPS.</li> </ul>

<p><b>5. Ms. Rose Nderitu</b></p> 	<ul style="list-style-type: none"> <li>• <b>Area of Responsibility:</b> Human Resources &amp; Administration.</li> <li>• <b>Academic Qualification:</b> Bachelor of Education (Arts), Higher Diploma HR (KNEC)/IHRM Certified Public Secretary-CPS (K), MBA (Human Resources) - KU Project ongoing, Certificate in Insurance Proficiency.</li> <li>• <b>Professional Membership:</b> Member of Institute Human Resources Management.</li> </ul>
<p><b>6. Mr. Edwin Okiah</b></p> 	<ul style="list-style-type: none"> <li>• <b>Area of Responsibility:</b> Internal Audit.</li> <li>• <b>Academic:</b> Bachelor of Commerce - Finance. MSC-Project Management.</li> <li>• <b>Professional Qualification:</b> CPA (K), CFIP.</li> </ul>
<p><b>7. Mr. Nesline Gechuki Okiko</b></p> 	<ul style="list-style-type: none"> <li>• <b>Area of Responsibility:</b> Legal Services.</li> <li>• <b>Academic Qualification:</b> Bachelor of Law.</li> <li>• <b>Professional Qualification:</b> Diploma in Law.</li> </ul>
<p><b>8. Mr. Tomno Kibichii</b></p> 	<ul style="list-style-type: none"> <li>• <b>Area of Responsibility:</b> Supply Chain.</li> <li>• <b>Academic Qualification:</b> Bachelor of Arts, MSC Procurement &amp; Logistics (on-going).</li> <li>• <b>Professional Qualification:</b> MCSIPS.</li> </ul>

**9. Mr James Singa**



- **Area of responsibility:** Head - Corporate Communications, Commodities Fund.
- **Qualifications:** First Class Bachelor's degree in Communications/ Media Technology (Maseno University); MA in Communication Studies (UoN); Certificate: Web 2.0 and Social Media (EU-ACP); Certificate: Corporate Governance (Centre for Corporate Governance); Certified ISO systems internal Lead Auditor (Bureau Veritas).
- **Professional bodies:** Full Member; Public Relations Society of Kenya.

## 4. CHAIRMAN'S STATEMENT

### 1.0 Introduction

It is with great pleasure that I present the Commodities Fund's (ComFund's) Annual Report and Financial Statement for the year ending 30<sup>th</sup> June 2020. In the financial year under review, the ComFund has strived to fulfil its mandate in prudent lending, strengthening the operations and partnership with other stakeholders, despite the challenges that was brought about by the Covid-19 pandemic.

### 2.0 COVID -19 Pandemic

The Corona virus that originated from Wuhan China in December 2019 became pandemic, spreading across the world, with the first case in Kenya being officially recorded on 13<sup>th</sup> March, 2020.

This led to H.E President Uhuru Kenyatta directing for the implementation of various health guidelines, including social distancing. The cessation of movement into and out of some affected counties was imposed.

As a result, Commodities Fund's management triggered the institution's Business Continuity Plan (BCP) on March 16<sup>th</sup>, 2020, as a risk mitigating factor, of which among other actions taken, the staff members were to work from home; in compliance with the presidential directive. In addition, during a State address on March 25<sup>th</sup>, 2020, the President directed financial institutions to temporarily suspend listing of clients with Credit Reference Bureaus (CRBs) effective from April 1, 2020.

### 3.0 Economic performance

Economic Survey 2020 estimates that Real Gross Domestic Product (GDP) decreased from 6.3% in 2018 to 5.4% in 2019. This decrease was majorly attributed to slowdown in Agriculture, forestry and fishing sectors. Agriculture sector decelerated from a growth of 6.1% in 2018 to 3.6% in 2019, as a result of mixed weather conditions during 2019.

### 4.0 Coffee, sugar, tea Subsectors:

Among the crops that posted lower production in 2019 compared to 2018 were tea, by 6.9% and sugar, 12.5%. However, coffee posted increased production by 8.7% from 41,400 metric tonnes in 2017/18 coffee season to 45,000 metric tonnes in 2018/2019 coffee season.

The area under sugarcane reduced by 2.5% from 202.4 thousand hectares in 2018 to 197.3 thousand hectares in 2019. Meanwhile, Coffee acreage slightly increased by 0.5% from 115.6 thousand hectares in 2017/18 to 116.2 thousand Hectares in 19/20, as a result of new establishment in emerging coffee growing regions in North and south Rift, Nyanza and Western.

### 5.0 Integrated Coffee Productivity Project

The Commodities Fund, partnership with other coffee sector stakeholders, including the county governments, KARLO-CRI, Agriculture and Food Authority (Coffee directorate), has been implementing The Integrated Coffee Productivity Project (ICPP). The project is aimed at increasing the coffee acreage and productivity per unit of production in order to improve incomes from coffee earnings. The Commodities Fund is the lead agency in implementing this Project.

### 6.0 Strategic Plan (2018-2023)

During the Financial year, the ComFund continued to implement its strategic plan (2018-2023). The plan lays more emphasis on resource mobilization, Partnerships, prudent credit management, legal and regulatory framework, price stabilization, capacity building as well as operational efficiency.

In the coming financial year, the Fund plans to undertake a mid-term review of the Strategic Plan.

### **7.0 Corporate performance overview**

The performance of the Fund in 2019/2020 remained depressed largely due to legal gaps in the Crops Act 2013. Key among them is lack of corporate status. Consequently, the Fund is not able to enforce loan repayment through court process. Secondly, a sizeable portion of loans inherited from the Agriculture and Food Authority were not secured while the secured ones have securities that are not easily realisable.

The long delayed privatization of government owned sugar mill has also contributed to low loan repayment since the companies have been on a go slow awaiting write offs.

I am delighted to note that the government has opted to reform the sugar sector by leasing the public owned sugar mills instead of privatization. Commodities Fund is hopeful that the issue of long outstanding debts will be addressed.

Despite the above challenges, Comfund managed to disburse loans totalling to Kshs 584 million and collected loans amounting to Kshs 384 million. The Fund has however continued to report losses occasioned by provisioning for non-performing debts. During the year a deficit of Kshs.75.3 million was realized after charging loan loss provision amounting to Kshs. 333 million. This is however a major achievement considering the Fund adopted a new provisioning policy in 2018/19 where provision amounting to Kshs. 9,113 million was charged resulting to a loss of Kshs 8,822 million. We remain optimistic that we are on the right path of recovery and back to profitability.

### **8.0 The Board Composition**

During the year under review, the Cabinet Secretary, Ministry of Agriculture, Livestock and Fisheries appointed Robert Muriithi Mugambi, Hon. Daniel Karaba, Eng. Kandie Kipkoros and Doreen Kanana as independent members of the Board of Trustees at the Commodities Fund for a period of three years.

The Board membership is as set out on page 4.

### **9.0 Challenges**

The breakout of corona virus affected the Fund's operations as a result of the health guidelines that were put in place by the Government. This has not only affected the Fund's operations, but also increased the risk of default for loans advanced in the coffee and sugar subsectors.

Besides the initial lending capital granted by the Government, ComFund relies on internally generated revenue to finance its operations and fulfil its mandate of providing credit to crops sector: "To provide sustainable, affordable and easily available credit and advances to crop sectors in Kenya". We are hopeful that going forward the Government will avail more funds to enable the fund to finance more crops.

In this regard, during the budgeting for the 2020-2021 financial, the ComFund received positive indication that it may receive funding for the exchequer to finance other scheduled crops as per the strategic plan.


**10.0 Way forward**

The ComFund will continue seeking strategic partnerships as well as requesting for resources from the government to supplement internal efforts to grow its portfolio with an aim to financing other crops.

**11.0 Conclusion**

I would like to extend my gratitude to my fellow Trustees, the management and the members of staff, as well as our partners for their dedicated service and execution of the Comfund strategies towards achieving the ComFund's mandate, vision and mission.

I appreciate the Ministry of Agriculture, livestock, Fisheries and Co-operatives, and by extension the Government for their support, advice and for providing an enabling environment that has made it possible for the Commodities Fund to continue to flourish.

Signed .....   
**Chairman, Board of Trustees**

## 5. REPORT OF THE MANAGING TRUSTEE

### 1.0 Introduction

Dear stakeholders, I have immense pleasure in presenting the financial performance of Commodities Fund for the year ended 30<sup>th</sup> June, 2020. Reflecting on year under review, the year 2020 will be remembered as extra-ordinary year when the whole world experienced unprecedented pandemic (Covid-19) which stalled businesses globally and changed the way of live. Comfund's performance to some extent mirrors what was happening across businesses world as a result of Covid-19 pandemic. Measures put in place by governments to contain spread of Covid-19 affected everyone across the board including you our valued stakeholders. The emergence of Covid-19 disrupted marketing structures for commodities which left farmers without market and endured long wait to have their commodities sold. The above reflect the difficult operating environment that the Comfund has continued to operate in and to a large extent challenges encountered by you our valued stakeholders. Despite the above challenges, the Board and the management remained focused and worked hard to deliver on target for the year.

Since operationalization of Crops Act, 2013, on 1<sup>st</sup> August 2014, Comfund has continued to offer credit to coffee and sugar subsectors which had established lending capital. Comfund has wide mandate of funding all scheduled crops but remained unachieved due to lack of capital. Am therefore pleased to highlight some of the significant milestones in 2019/2020. Securing a total Kshs.310 million from Government in the budget period 2020/2021, Appointment of new Board of Trustee after expiry of previous Board, Authority to enhance staff capacity through employment and growth of our portfolio by 18%.

Notwithstanding the above milestones, the Comfund is faced with other major challenges which include; Lack of corporate status, lack of lending capital for other scheduled crops and Collection of old non-performing loans inherited from two former Funds. All the above are considered critical to achieving Comfund's mandate but with your support they will be delivered.

### 2.0 Financial Performance

During the period under review, income declined to **Kshs.492million** from **Kshs.549million** recorded in 2018/19. This 10% decline is attributed to myriad of factors among the poor coffee prices, shortage of sugarcane which is the raw material required for sugar production and inertia caused by delayed privatization of government owned sugar mills and slowed business due to Covid-19. Resulting from above factors much of the expected loans repayment was not received and interest was frozen from those loans.

Secondly, the handover of the loan portfolio of the former Sugar Development Fund was done in March 2019 and after reviewing it status, it was noted the entire portfolio was non-performing and was not adequately provided for. New provision model aligned prudential guidelines of central Bank was adopted and continues to be applied.

Additional loan loss provision amounting to **Kshs. 331 million** was charged compared to **Kshs.9.113 million** previous year when the new policy was adopted. The Fund ended with a deficit of **Kshs.75.3 million**.

The year was also the second full year of running seven regional offices paying the salaries of the staff previously paid by AFA as well as having a fully constituted Board of Trustees. Resulting from the above adjustments, the operational cost of the Comfund without provisions were **Kshs. 235 million** against **Kshs.259 million** incurred in 2018/19 representing a decline of 9% in cost. Moving forward, the Comfund will be consolidating gains from that expansion and will work towards stabilizing costs.

The cumulative loan book provision for non- performing loan reached a high of **Kshs.19.965 billion** thus reducing the reported net loans to **Kshs.930 million** compared **Kshs.787 billion** reported in 2018/2019. The Fund was therefore able to grow its loan book by **Kshs.143 million** representing 18% growth. The on -going privatization of government owned sugar mills is expected to write off some debts from the sector while the Comfund will also seek authority to write off uncollectable debts that may remain after privatization.

### 3.0 Credit Portfolio

The Comfund's loan portfolio comprised of coffee and sugar loan products that supported production, processing and value addition of the two crops. The sugar industry has been facing acute cane shortage which was further aggravated by the drought that was being experience in the country. Coffee farmers on the other and were also affected by the drought and low coffee price in the international market which lead to reduced production.

Notwithstanding the challenges faced by the two subsectors, a total of **Kshs. 584 Million** was disbursed comprising of **Kshs 196 million** and **Kshs. 388 million** to sugar and coffee subsectors respectively. The funds were meant for Farm inputs, Crop Establishment, Processing and Purchase of Machinery geared towards increasing coffee and sugar productivity. During the same period the Comfund was able to recover loans amounting to **Kshs. 353 Million** comprising of **Kshs.194 million** and **Kshs.158million** for sugar and coffee subsectors respectively. The greatest challenge remains collection of long overdue loans much of which is held by sugar sector and not secured.

### 4.0 Human Capital

The Comfund recognizes that its human capital is core to achieving its mandate. As such and in addition to rewarding careers, the Comfund offers opportunities for leadership building and skills enrichment through various development programs, on-the-job training and structured personal career growth.

The Comfund upholds good citizenship practices by adhering to disability and gender mainstreaming as well as continually striving to be the employer of choice. The Comfund will continue to use the balanced score card as tool to measure employees performance.

### 5.0 Risk Management and Internal Controls

The Board of Trustees has overall responsibility for the establishment and oversight of the Comfund's risk management frameworks. The Comfund's Risk Management Policies are established to identify and analyse the risks faced by the Comfund, to set appropriate risk limits and controls, and to monitor adherence limits. Risk Management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

Subsequently, the Comfund identifies and manages risk through in-house risk review enhanced by internal and external audits. The Comfund has in place a system of internal controls with

defined procedures and financial and operational controls to ensure that resources are safeguarded; transactions authorized, validated and reported in line with International Financial Reporting Standards.

## **6.0 The ISO 9001:2015 certification:**

The Comfund has a functioning and continuously monitored Quality Management System. The QMS is monitored through management review meetings, internal and external audits to ensure it is fully implemented and produces value for all of Commodities Fund's internal and external stakeholders. The Quality Management System was certified under ISO 9001: 2015 in the last financial year and plans are underway for re-certification in the year 2020/21.

### ***Quality Management System Policy***

- The Comfund is committed to providing efficient and reliable credit facilities along the value chain to the satisfaction of the agriculture sector. The Comfund shall continually improve its Quality Management System through enhanced customer service delivery to achieve a vibrant, sustainable and profitable scheduled crops in the agricultural sector.
- Commodities Fund is committed to developing and maintaining a Quality Management System which conforms to ISO 9001:2015 International Standards.
- In pursuit of this commitment, Commodities Fund shall:
  - a) Establish and maintain a quality management system and continually improve its effectiveness.
  - b) Effectively communicate the quality policy at all levels within the organization and shall be available to relevant interested parties.
  - c) Provide resources for implementation of the quality management system.
  - d) Comply with applicable statutory and regulatory requirements.
- Commodities Fund shall implement, monitor and regularly review this policy and related quality objectives for suitability in line with the changing needs and requirements of our customers and other relevant interested parties.

## **7.0 Corporate Social Responsibility**

The Comfund recognizes that the institution's social, environmental and ethical conduct has an impact on its reputation.

The Comfund, as a Responsible Corporate citizen, also understands that it has a responsibility to ensure that its mandate is carried in a manner that not only brings about satisfaction to its stakeholders, but minding the proper management of the environment it operates in, and especially, considering the social well-being community and public it serves, while promoting national values, national cohesion and human dignity. These are the basic principles that informs the Comfund's CSR function and activities.

The Comfund is therefore committed to developing and implementing Corporate Social Responsibility programmes based on the above mentioned principles.

## **8.0 Outlook**

2019. On 30th January 2020, the World Health Organization declared Covid-19 a public health emergency of international concern. The first Covid-19 case was reported in Kenya on 14<sup>th</sup> March, 2020 which has since changed way of live. Protecting the health of the public continues to take precedence at this point with the contingency measures that are in place to contain the virus adding to the economic vulnerabilities. Additionally, restrictions of movement including self-distancing and quarantine has further impacted the economic outlook.

Comfund remains focused on its core mandate and has returned to business after government relaxed restrictions on movement in August 2020. Back in 2018, Comfund opened seven regional offices in coffee and sugar growing regions aimed at serving farmers better as well as to reduce operational cost. The Fund is currently filling the existing staff gaps in the regional offices in order to realize the envisaged benefits.

During the last quarter of the financial year, a number of our projections and business plans changed due to the devastating effects of the Covid-19 pandemic, which was first detected in China on 31st December.

The outlook beyond COVID-19 remains optimistic, while the timing remains fluid. Comfund has received Kshs.180 Miraa Fund in July 2020 and expects to receive a further Kshs. 100million for Coconut sub-sector within the year. This grant from Government of Kenya has two more scheduled crops to basket of commodities funded by the Comfund. The funding has not only improved the financial position of the Fund but has placed it in a strong position to weather Covid-19 period and grow once the pandemic is contained. We are supportive of the measures the government is taking to protect lives and we continue to focus on the safety and health of our staff and all stakeholders.

Our achievements in 2019/20 would not have been possible without the dedication and expertise of our staff, to whom I extend my sincere thanks, Ministry of Agriculture, Livestock, Fisheries and Co-operatives and the Board of Trustees who provided wise counsel to my colleagues and I during the year, as well as to all our stakeholders, who have accorded us the privilege to serve them.

Signed   
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**Managing Trustee**

## 6. REVIEW OF COMMODITIES FUND PERFORMANCE FY 2019/2020

Commodities Fund has seven (7) strategic pillars and objectives within its Strategic Plan for the FY 2018/2019- 2022/2023. These strategic pillars are as follows:

**Pillar 1: Resource Mobilization**

**Pillar 2: Credit Management**

**Pillar 3: Legal and Regulatory Framework**

**Pillar 4: Price Stabilization**

**Pillar 5: Capacity Building and Partnerships**

**Pillar 6: Operational Excellence**

**Pillar 7: Organizational Capacity**

Commodities Fund develops its annual work plans based on the above seven pillars. Assessment of the Board's performance against its annual work plan is done on a quarterly basis. The Fund achieved its performance targets set for the FY 2019/2020 period for its seven strategic pillars, as indicated in the diagram below:

Strategic Pillar	Objective	Key Performance Indicators	Activities	Achievements
Resource Mobilization	To mobilize Kshs 30.7 billion by 2023 to finance scheduled crops	Funds mobilized	i. Capacity build the Resource Mobilization Unit staff ii. Develop a resource mobilization policy and strategy	i. The resource mobilization function is being undertaken by a Credit Staff who has been handling resource mobilization duties because the organization structure has not been approved by the State Corporations Advisory Committee (SCAC). ii. The resource mobilization policy was developed and approved by the Board of Trustees.
2. Credit Management	To reduce the loan turnaround time (from 2 months to 3 weeks for repeat and 3 months to 1 month for new customers)	Reduced turnaround time	i. Communicate loan application window calendar to farmers ii. Implement SLAs iii. Develop a farmers' database	i. Regional offices communicated to coffee and sugar clients on loan application windows. ii. Departmental service level agreements were developed. iii. Coffee farmers' database was developed and is being updated as and when additional information is received.
	To grow the loan portfolio from Kshs 7.8 billion in 2018 to Kshs 19.1 billion by 2023	Increased loan uptake	i. Develop application window calendar (2 p.a.) ii. Undertake mapping of crop value chain (2 p.a.)	The Fund increased its coffee portfolio from Kshs 1.36 billion in FY 2018/19 to Kshs 1.55 billion in FY 2019/20 and the sugar portfolio from Kshs 2.14 billion in FY 2018/19 to Kshs 2.43 billion in FY 2019/20.
	To reduce NPLs from 70% in 2018 to 20% by 2023	Reduced PAR	Classify loanees as per the NPLs restructuring policy	The PAR for coffee and sugar loan portfolios was 46% and 15% respectively in FY 2019/20. The target was 40% and 20% for the coffee and sugar portfolio in the period under review. <b>*The target was made with the assumption that the historical loans would be write off.</b>

3. Legal and Regulatory Framework	To have a supportive legal framework	Revised crops Act	Follow up with the Ministry on enactment of the amendments	The Fund engaged Senate Committee on Agriculture and Solicitor General and handed proposed amendments through the Ministry of Agriculture Livestock & Fisheries.
4. Price Stabilization	To facilitate the reduction of commodities' price volatility	No of contracts entered into	Identify marketers and processors of various crops for contract farming	The Fund identified potential coffee buyers from Italy (Truste Coffee Organization) who were interested in Kenyan Coffee and linked them to farmers in Meru, Nyeri and Kiambu Counties. In addition, The Fund maintains a database of coffee processors and marketers with whom it works with through a tripartite arrangement.
5. Capacity Building and Partnerships	To build borrowers capacity in Financial Management, Crop husbandry and Governance	Increased farm productivity and loan repayment	i. Develop capacity building programs in consultation with stakeholders ii. Organize calendar for training programmes	The Fund developed and undertook capacity-building programs in eight (8) counties namely Meru, Makueni, Nyeri, Migori, Kisii, Tharaka Nithi, Muranga and Elgeiyo Marakwet.
6. Operational Excellence	To reduce the operational cost to revenue ratio from 117% in 2018 to 88% by 2023	Increased efficiency	i. Train staff and customers on use of ICT systems ii. Sensitize customers and implement the service charter iii. Develop departmental annual work plans and budgets iv. Align work plans with budget allocation v. Management of outsourced services	i. Credit Staff were trained on web based module for loan appraisals and approval process. All Staff were trained and sensitized on various ICT platform and systems modules during the staff meeting at the end of 2019. ii. Sensitization of the customer service charter was done during the farmers' field days and Integrated Coffee Productivity Project (ICPP) forums. Staff sensitization undertaken for managers and Regional Credit officers, including the development of SLAs. iii. Departmental annual work plans and budgets for 2020/21 were developed in December 2019. iv. Work plans for 2019/20 were aligned with budget allocation. v. Security and Courier services are already outsourced at the Head Office. Records of the outsourced services are being maintained.
7. Organizational Capacity	To attract and retain skilled, motivated and productive staff	Increased productivity	i. Undertake competitive recruitment to fill identified position ii. Develop training plan iii. Undertake training as per training plan	The Fund was granted authority by the National Treasury to competitively recruit credit staff, systems Auditor and Procurement staff. These were positions that were identified in FY 2018/19. ii. Training Plan for 2019/20 was prepared and approved for implementation.

				iii. Training plan was implemented. ComFund trained forty four (44) employees.
	To enhance good corporate governance practices	Competent and compliant board	Develop and implement board performance management system ii. Implement Mwongozo guidelines	i. Board performance evaluation was undertaken in September 2019 using template provided by the State Corporation Advisory Committee. ii. Mwongozo Being implemented. Board committees properly constituted and quarterly virtual Board meetings scheduled.

The Fund's performance contract deliverables for FY 2019/2020 were drawn from the strategic plan and cascaded to the departmental and divisional heads for implementation at the department and divisional levels. The progress reports are submitted to the Board of Trustees on a quarterly and annual basis.

## 7. CORPORATE GOVERNANCE STATEMENT

The Commodities Fund is always committed to the highest level of corporate governance. The Trustees through the Comfund's operational policies have realised an in-built self-regulating mechanism, which provides the framework to monitor and ensure statutory compliance. This has overtime fostered a culture that values and rewards the highest ethical standards and personal integrity. Comfund always strives to ensure that at all it's Trustees and staff act with integrity, honesty and professionalism. The Board of Trustees and Management have adopted sound corporate governance principles that have in turn ensured the setting of the right "tone at the top". This has in turn enforced an ethical business culture which governs the Comfund's operations. This statement therefore sets out the key corporate governance principles observed by Comfund and illustrates the practices and systems established by Government.

### 1.0 Board of Trustees

The Comfund's operations are governed by the direction of the Board of Trustees, who are responsible for:

- i) Providing policy guidelines and strategic decision-making;
- ii) Establishing and maintaining the Comfund's overall systems of planning, accounting and internal control as well as ensuring its integrity;
- iii) Setting the strategic direction of the Comfund;
- iv) Setting policy guidelines for management and ensuring competent management of the business including the selection, supervision and remuneration of senior management;
- v) Ensuring that the business of the Comfund is conducted in compliance with relevant laws, regulations and the legality of transactions;
- vi) Reporting the performance of the Comfund to stakeholders and ensuring the Comfund meets all its other responsibilities to stakeholders;
- vii) Ensuring that the rights of stakeholders that are protected by law are respected;
- viii) Permitting and facilitating performance-enhancing mechanisms for stakeholder participation;
- ix) Ensuring that where stakeholders participate in performance-enhancing mechanisms, they have access to all relevant information;
- x) Putting in place independent and viable mechanisms to evaluate performance of the Comfund and management;

- xi) Account for stewardship [efficient and effective use of entrusted resources] for the maximum benefit of the Comfund;
- xii) Ensuring that Comfund operates within ethical guidelines that enhance integrity, social accountability and the reputation and credibility of the Comfund;
- xiii) Maintaining adequate systems of financial management and internal control over the Comfund;
- xiv) Facilitating an extension of Auditors duties in regard to:
  - Reporting on whether the Comfund has financial and other risk management controls,
  - Evaluating and reporting on aspects of propriety and efficiency;
- xv) Extending the liability of external auditors to third parties.

The day-to-day running of the Comfund's affairs is delegated to the Management team while the Board retains the overall responsibility as mandated by Law.

## **2.0 Board Structure and Processes**

The Board of Trustees consists of members who contribute expertise based on their professional qualifications and business experience. The independent members of the Board were appointed and gazetted on the same date while the Government representatives were appointed later. This staggered appointments has provided a prudent avenue for succession. The Board in line with the ministry directive advertised, interviewed and filled all managerial positions including the Managing Trustee. The Comfund meets all the costs incurred by the Trustees during the various committees and Full Board meetings.

The Board has been inducted on the Comfund's various activities with trainings and seminars on corporate, legal and governance matters held in order to enhance their knowledge and skills in corporate governance issues over the course of the financial year.

The Board of Trustees and its constituent committees have Board Charters which govern their operations in conformity with best corporate governance practices as developed and guided by the Government of Kenya. The Board shall be conducting an annual evaluation of its performance and that of its committees for the period ended June 2019 in the first quarter of 2019/2020. This shall be carried out with the evaluation criteria linked to Board and Committee responsibilities and goals as set forth in the charter and governance policies.

## **3.0 Conduct of Business Operations, Performance**

The Comfund's business operations are carried out within an established framework of processes, procedures, systems and in line with the strategic plan. The Management structure has clearly set out roles, responsibilities and reporting lines, all geared towards providing strong, stable leadership and achievement of the Comfund's business objectives. As a key Management initiative, the Comfund is using the balanced scorecard with all staff performance evaluated continuously on a semi-annual basis with financial and non-financial metrics used to evaluate executive performance.

The Comfund practices equal opportunity recruitment of qualified persons to ensure compliance in its practices as guided by the Constitution of Kenya in recognizing regional and ethnic balance, gender balance and affirmative action to persons with disabilities where possible. As part of its staff development programme, the Comfund endeavours to empower all staff regardless of their calibre.

The Comfund recognizes its human capital to be strategic to the achievement of its business objectives and has identified the HIV/AIDS pandemic as being a possible challenge. In response, it has implemented as part of its policy, a comprehensive medical scheme for all its staff and dependents to ensure quality healthcare for staff, incorporating medical assistance for all who may be infected or affected in any other way by the pandemic. The Comfund also on a regular basis sensitizes its staff on matters pertaining to gender, disability, drug abuse, integrity and corruption and provides progress reports to the relevant bodies.

## 8. MANAGEMENT DISCUSSIONS AND ANALYSIS

### 1.0 Highlights of Operational and Financial Performance:

The Comfund is mandated to provide sustainable, affordable and accessible credit and advances to farmers for value chain development of scheduled crops.

The Comfund is currently financing coffee and sugar sectors that have established capital fund of **Kshs. 1,675,206,000** and **Kshs. 13,554,512,000** respectively. The coffee capital fund was grant from government given to former Coffee Development Fund while the Sugar Fund was built up from sugar levy previously collected by former Kenya Sugar Board.

#### Summarized Statement of Financial Position

Details	2018	2019	2020
	Ksh'000'	Ksh'000'	Ksh'000'
Gross Loans	16,631,768	16,239,299	16,503,648
Provisions on Non- Performing Loans	7,947,474	15,473,166	15,574,055
<b>Net Loans</b>	<b>8,684,294</b>	<b>766,133</b>	<b>929,593</b>
Gross Interest Accrued on Loans	3,878,244	4,181,607	4,434,216
Provision on Interest	2,572,677	4,160,558	4,418,775
<b>Net Interest on Loans</b>	<b>1,305,567</b>	<b>21,049</b>	<b>15,441</b>
Other Assets	1,139,552	1,568,793	1,335,647
Property plant and Equipment	73,973	32,061	26,199
<b>Total Assets</b>	<b>11,203,386</b>	<b>2,388,036</b>	<b>2,306,880</b>
Total Liabilities	20,782	26,606	24,391
<b>Net assets</b>	<b>11,182,604</b>	<b>2,361,431</b>	<b>2,282,489</b>
Capital Reserves	15,233,139	15,233,139	15,233,139
Revenue Reserves	(4,050,535)	(12,871,708)	(12,950,599)
<b>Total Net Reserves</b>	<b>11,182,604</b>	<b>2,361,431</b>	<b>2,282,540</b>
<b>Summarize Performance Statement</b>			
Income from Credit Activities	555,929	433,844	395,986
Provision charges on loans & Interest	405,624	9,113,574	327,092
Net income/(Deficit) from Credit Activities	150,306	(8,679,729)	68,894
Income from Non-Credit Activities	71,181	116,025	85,179

<b>Operating Surplus (Deficit)</b>	<b>221,487</b>	<b>(8,563,704)</b>	<b>154,072</b>
Operating Expenses	211,025	258,714	235,753
<b>Net Surplus (Deficit)</b>	<b>10,462</b>	<b>(8,822,419)</b>	<b>(81,681)</b>

The gross loan portfolio as at June 30<sup>th</sup> June, 2020 stood at **Kshs. 16,503 million** comprising of coffee **Kshs. 1,180million** (7%) and sugar loans of **Kshs. 15,322million** (93%). The portfolio is made up of loan products that support production, processing and value addition of the two crops. Cumulative book provision for the principal and interest were **Kshs.15,574 million** and **Kshs.4,419 million** respectively. The resultant net loans and interest are **Kshs.927 million** and **Kshs.15 million** for principal and Interest respectively. This is an increase of **Kshs.161 million** representing a growth of 21% from previous year figure of **Kshs.766 million**. As a matter of prudence, adequate provisions are needed to take care of the debts that may never be collected. Cumulative book provision on loans and interest stood **Kshs.19,994 million** as at 30<sup>th</sup> June 2020. The provision has reduced the loan asset to **Kshs.927million** compared to **Kshs.766 million** reported in 2018/2019.

During the year, the Comfund disbursed loans amounting to **Kshs. 584million** to borrowers within two sectors. The disbursements were broken into **Kshs. 388million** and **Kshs. 196 million** for coffee and sugar sectors respectively. This was 52% growth from **Kshs. 385 million** disbursed in 2018/2019.

The sugar sector which holds 93% of Comfund's loan portfolio continues to record poor performance due to myriad challenges. All government owned sugar millers halted their operations during the year due to sugar cane shortages and financial challenges. The Industry as a whole is also faced with funding challenges following the abolition of sugar levy that was the sole source of funding for the Industry. The general poor performance of the industry has continued to adversely affect the performance of commodities fund as a whole. The planned privatization of government owned sugar mills is expected to write offs some of the long outstanding debts in the sector thus alleviating the problem of indebtedness. It is envisaged that the new owners will start servicing the debts taken over by them thus improving loan repayment.

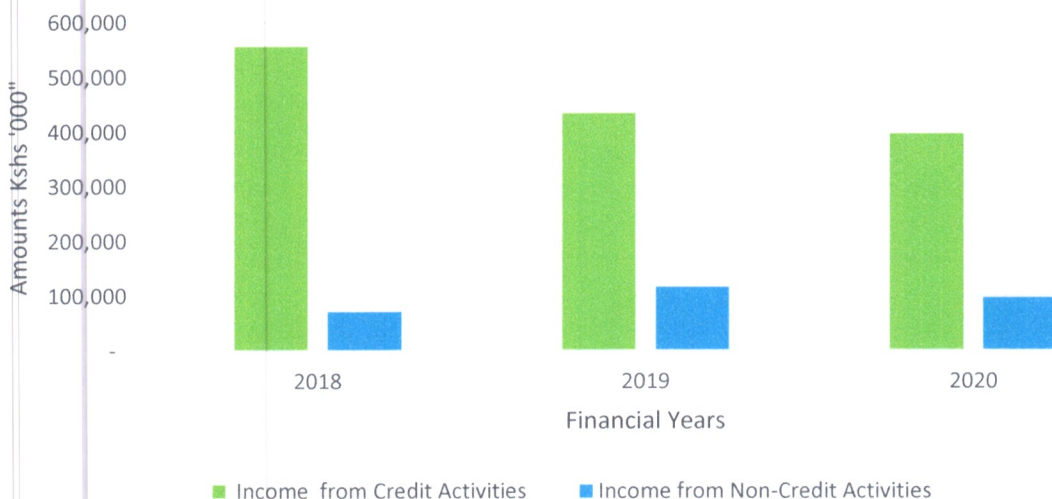
Coffee loans were also affected low coffee prices in the international market in 2019/20 crop season thus affecting the repayment. Secondly, the covid-19 also affected coffee auction at the Nairobi Coffee Exchange thus affecting loan repayment.

Other assets of the Comfund which mainly consists of cash and cash equivalent, office equipment and furniture and general debtors decreased to **Kshs. 1.336 billion** from **Kshs.1.568 Billion** reported in June 2019 representing 15%. Major decline was reported in cash and cash equivalent as a result of increased loan disbursement and low loan collection.

Revenues from core business of the Comfund recorded 8% decline from **Kshs.434 million** in 2019 to **Kshs. 396 million** in 2020. The decline is attributable to interest freezing on Non-performing loans on both Coffee and Sugar portfolio. Repayment was further affected in the last quarter of the year by emergence Covid-19 which crippled many economic activities.

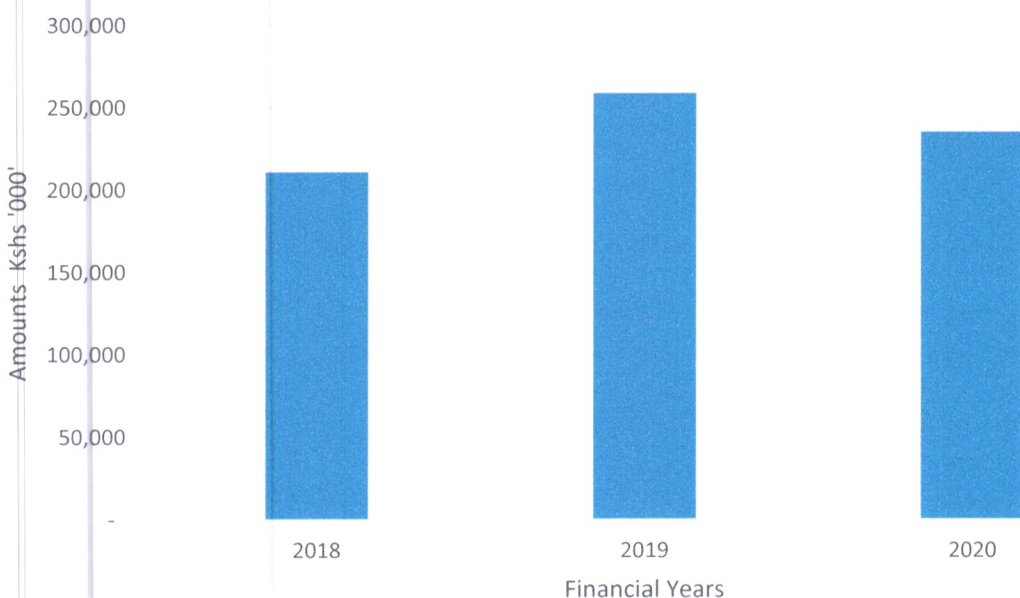
Revenues from non- credit activities dipped by 16% from **Kshs. 116 million** in 2019 to **Kshs. 85 million** in 2020. The decline was occasioned by declining market interest rate on fixed deposits as well as reduced cash available for investment due to increased loans disbursement.

### Credit Income Vs Non- Credit income



Operating expenses of the Comfund have declined by 9% to **Kshs. 235 million** in 2020 from **Kshs. 259million** reported in 2019. High cost in 2019 was attributed to the operationalization of the seven regional offices in order to take services closer to the Comfund’s customers. The expected return will be realized in coming years through revenues generated from increased loan uptake and repayment. In December 2017, Board of Trustees advertised, interviewed and filled all management positions including that of the Managing Trustee. This was accompanied by salary adjustments for the absorbed staff. Two senior staff who were receiving their salaries from Agriculture and Food Authority were absorbed and Comfund assumed payment of their salaries from March 2018. Later in the year two more staff not in the senior management and who still received their salaries from Agriculture and Food Authority were handed over to Comfund in December 2018 and the Comfund has since met their salaries and remunerative allowances.

### Operating Expenses



The Comfund ended the year with a net deficit of **Kshs. 81.4million** after charging provision amounting to **Kshs.327 million**. Consequently, the accumulated deficits increased to **Kshs. 12.95 billion** from **Kshs. 12.87 billion** reported in June 2019.

In an effort to serve customers better and cut on operational costs, the Comfund opened and operationalized seven regional offices in 2018. The staffing gaps which existing in the regional offices are being addressed by employment of eleven staff in the core business of the credit. The regional offices will continue to promote Comfund's products, appraise and recommend credit requests and monitor the loans. In order to discharge its mandate as stipulated in the Crops Act 2013, Comfund will continue to lobby for capital to supported unfunded scheduled crops.

In comparison to other financial service providers, the Comfund's interest rates of between 5% to 10% is lower than those of other players who are mainly commercial banks and Saccos. The Comfund is capitalizing on this competitive advantage to reach and serve farmers who avoid the former due to high interest rate and rigidity in loan repayment patterns. Demand for crop development loans more so crops not currently financed by the Comfund remains high creating future business opportunity for the Comfund. The greatest challenge faced by the Comfund is to secure reliable and stable Funding capital to lend to the envisaged farming fraternity.

### **3.0 Compliance with statutory requirements**

The Comfund's Board of trustee is headed by a chairman, four (4) Independent Trustees appointed by the Cabinet Secretary Ministry of Agriculture, Livestock , Fisheries and Co-operatives, two (2) Representatives from the Parent Ministry and The National Treasury and Planning

Internally, the Comfund is headed by a Managing Trustee who is the Secretary to the Board of Trustees and Chief Executive Officer of the Comfund. The Managing Trustee is assisted by departmental managers comprising of, the Credit Manager, the Finance Manager, Legal Manager and ICT Manager. Others include the Internal Auditor, Human Resource and Administration Officer, Procurement Officer and Corporate Communications Officer.

### **4.0 Existing and potential court cases/ defaults.**

The Comfund currently has three litigations against and one of the three cases involves a spousal consent dispute on a property secured against a loan with the exposure estimated at around Kenya shillings Eighteen Million Nine Hundred Ninety Seven Eight Hundred Forty Six. (Kshs 18,997,846).

### **5.0 Key Projects investments decisions that the Comfund implemented**

The Comfund had budgeted to invest a total of Kshs. 26,690,000 in various assets during the year. The budgeted assets include; Office equipment and furniture Kshs. (1,690,000), Motor vehicles (Kshs. 5 million, ICT Equipment and facilities Kshs. 10 million and staff mortgage Kshs.10 million. All the above assets were financed from internally generated funds as approved through annual budget estimates.

The Comfund was able to acquire, ICT Equipment and facilities amounting to Kshs. 4,966,990 million, Motor vehicle Kshs. 3,960,000 and mortgage amounting to Kshs.10million.

### **6.0 Major Risks Facing the Comfund**

The Board of Trustees has overall responsibility for the establishment and oversight of the Fund's risk management frameworks. The Fund's Risk Management Policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor adherence limits. Risk Management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

Subsequently, the Fund identifies and manages risk through in-house risk review enhanced by internal and external audits.

Major risks identified include:

**i) Liquidity and Funding Risk**

Liquidity risk is potential for loss to the Fund arising from its inability to meet obligations as they fall due or to fund increases in assets without incurring unacceptable costs or losses. Effective liquidity management is essential to maintain confidence of customers, suppliers and other stakeholders and to enable Fund's core business to continue even under adverse liquidity circumstances.

*Mitigating Liquidity/ funding risk*

a) Prudent planning

The Management has set systems in place to meet all foreseeable funding commitments as they fall due and the Fund will not face difficulties meeting its current and future financial obligations or financial liabilities as they fall due.

b) Budgeting

The Fund enters into lending agreements subject to availability of funds. Investments in major assets is preceded by budget and purchased when the Fund has sufficient cash flows.

c) Financial Controls

The Fund has in place a system of internal controls with defined procedures, financial and operational controls to ensure resources are safeguarded; transactions authorized, validated and reported in line with International Financial Reporting Standards.

d) Audits and Financial Reports

The Fund has established Boards Audit committee as well an internal audit office to ensure that its financial controls put in place are effective. In addition, as a public institution, the Fund is subject to public auditing by the office of Auditor general.

Periodically the Fund makes statutory reports to relevant offices, agencies and institutions, including the Board of Trustees, line ministry and the Treasury, as a financial control mechanism.

e) Stringent recovery of advanced credit

Management has been lobbying for funding from GoK and has come up with stringent lending conditions that ensures funds lent out is paid back to the revolving fund thus reducing the existing funding risk.

f) Lobbying for government Funding

Government of Kenya (GoK) was the source of capital funds currently used to finance the Coffee Sector. The funding of sugar sector is from the capital accumulated from Sugar levy abolished in July 2016.

Commodities Fund has not been receiving capital grants from government or any other source and risked running into liquidity risk. Beginning 2020/2021, the Fund will receive both recurrent and capital grants from government thus reducing liquidity risk. Further, the Fund will also seek GoK authority to write off non-performing loans in sugar sector that will significantly reduce the existing capital fund.

**ii) Credit Risk**

Credit risk is the risk that a borrower will default on any type of debt by failing to make required payments. The risk is primarily that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs. The loss may be complete or partial and can arise in a number of circumstances. Currently, the Fund is unable to collect substantial portion of the loan portfolio and accrued interest on both Sugar and Coffee sectors.

*Mitigating credit risk*

a) Credit policies

To this address this risk, the Fund has developed policies to ensure loans are granted to farmers with an appropriate credit history.

b) Loan Appraisal and evaluation

The credit department assesses the credit quality of each borrower, taking into account their financial position, past credit experience and other factors.

c) Debt collection

The Fund has engaged services of debt collectors to deal with some of the default cases.

d) Automating Risk management

Under the ERP credit module, the Fund has automated risk analysis as part of loan application and appraisal process, to identify threats that may lead to default and corresponding mitigation factors put in place to prevent such eventuality.

**iii) Interest rate risk**

Interest rate risk is potential of the Fund forced to charge unsustainable interest rate on its loan products in order to retain its customers and be seen to comply with the requirement of granting affordable subsidized loans to farmers.

*Mitigating interest risk:*

a) Unique loan features

The Fund has developed its loan products incorporating unique features that attract customers regardless of the interest aspects.

b) Growing the portfolio

Even as the Fund operates as a service (revolving) Fund, it is engaging in strategies to grow its loan portfolio. If the portfolio were large enough, it would be possible to operate in below the market interest rates, in its effort to fulfil its mandate of availing easily affordable loan facilities to farmers.

**iv) Operational Risks**

Operational risk is the potential of a loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk can widely occur in Fund due to human errors or mistakes. Examples of operational risk may be incorrect information filled in during clearing or loan processing.

Operational risks may be further categorized as follows:

- Human risk: Potential losses due to a human error, done willingly or unconsciously.
- System risk: Potential losses due to system failures and programming errors
- Processes risk: Potential losses due to improper information processing, leaking or hacking of information and inaccuracy of data processing.

Mitigating Operational risks:

The Fund is in the currently implementing an ERP that will integrate all its processes in order to mitigate the exposure to such attacks and errors.

**7.0 Material arrears in statutory/financial obligation**

The Comfund does not have any statutory arrears or any financial obligation to any government agency or lender.

**8.0 The entity probity and serious governance issues**

The Comfund does not have any serious governance issues and has systems in place to address all matters relating to running of the Comfund.

## 9. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Comfund, as a responsible corporate citizen, continues to ensure that its mandate is carried out in a manner that not only brings about satisfaction to its stakeholders, but minding the proper management of the environment it operates in, and especially, fulfilling the social welfare of its immediate but needy neighbours and general public, with deliberate bias to the vulnerable of the society.

Together with the corporate core values that guide the Fund's operational culture that is stakeholder - focused, this is the basic principle that informs the Comfund's CSR function and activities.

The Fund identifies its CSR activities to satisfy not only the good management of the environment and social needs of the Comfund's neighbours and general public, but also to promote national values, national cohesion and human dignity.

The institution has in place CSR policy, which was approved by its Board of Trustees, to henceforth guide on how Comfund shall be identifying and implementing various projects in support of the community as a corporate citizen.

In addition, Comfund sponsored its staff members to take part during the Standard Chartered Marathon on 27<sup>th</sup> October 2019. The marathon is aimed at raising funds for the visually impaired children in need of medical procedures in the community, under the theme: 'Seeing is believing'.

In an effort to care for the environment among the farming community while supporting the government's to effort deliver the big Four Agenda, the Comfund implemented the presidential directive dated June 4<sup>th</sup> 2018 on *Inclusion of Trees Planting in Corporate Society Responsibility (CSR) activities* by donating 30,940 seedlings for establishment to six coffee farmers societies in Migori county and four societies in Elgeyo Marakwet counties, benefitting a total of 198 farmers.

In the next financial year, the Fund shall continue to undertake these noble initiatives (and many more, within the capability of the institution.

## 10. REPORT OF THE DIRECTORS

The Board of trustees submit their report together with the audited financial statements for the year ended ending 30<sup>th</sup> June 2020 which shows the Commodities Fund affairs.

### 1.0 Principal activities

The principal purpose of the Comfund is to provide sustainable, affordable credit and advances to farmers, co-operative societies, millers and out grower institutions for farm development, farm inputs, farming operations, farm machinery, factory rehabilitation and price stabilization.

### 2.0 Results

The results of the Comfund for the year ended 30<sup>th</sup> June, 2020 are set out on page 1.

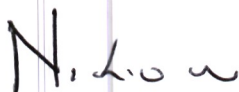
### 3.0 Trustees

The Trustees who served for the year ended 30<sup>th</sup> June 2020 are shown on pages 4-7.

### 4.0 Auditors

The Auditor General is responsible for the statutory audit of the Comfund in accordance with the Article 229 of the constitution of Kenya and the Public Audit Act 2015.

By order of the Board.



**Nesline Gechuki Okiko**  
**Legal Manager**

Date: 22/04/21.....

## 11. STATEMENT OF TRUSTEES' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and the State Corporations Act, require the Trustees to prepare financial statements in respect of that Comfund, which give a true and fair view of the state of affairs of the *Comfund* at the end of the financial year/period and the operating results of the *Comfund* for that year. The Trustees are also required to ensure that the *Comfund* keeps proper accounting records which disclose with reasonable accuracy the financial position of the *entity*. The Trustees are also responsible for safeguarding the assets of the *entity*.

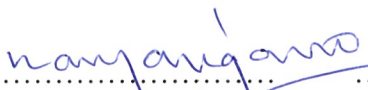
The Trustees are responsible for the preparation and presentation of the financial statements, which give a true and fair view of the state of affairs of the *Comfund* for and as at the end of the financial year ended June 30, 2020. This responsibility includes: (i) maintaining adequate financial management 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 *Comfund*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.


The Directors accept responsibility for the *Comfund'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 State Corporations Act. The Directors are of the opinion that the *Comfund's* financial statements give a true and fair view of the state of *Comfund's* transactions during the financial year ended June 30, 2020, and of the *Comfund's* financial position as at that date. The Trustees further confirm the completeness of the accounting records maintained for the *Comfund*, which have been relied upon in the preparation of the *Comfund's* financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Trustees to indicate that the *Comfund* 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 *Comfund's* financial statements were approved by the Board of Trustees on 30<sup>th</sup> September, 2020 and signed on its behalf by:

  
.....  
**Hon Samson Okioma**  
**Chairman**  
**Board of Trustees**

  
.....  
**Hon. Daniel Karaba**  
**Chair,**  
**Finance, Staff & General**  
**Purpose Committee**

  
.....  
**Ms. Doreen Mutua**  
**Chair,**  
**Audit Committee**

# REPUBLIC OF KENYA

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*Enhancing Accountability*

**HEADQUARTERS**  
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Monrovia Street  
P.O. Box 30084-00100  
NAIROBI

## **REPORT OF THE AUDITOR-GENERAL ON COMMODITIES FUND FOR THE YEAR ENDED 30 JUNE, 2020 - STATE DEPARTMENT FOR CROP DEVELOPMENT**

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### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Qualified Opinion**

I have audited the accompanying financial statements of Commodities Fund set out on pages 1 to 61, 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 have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Commodities Fund as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Crops Act, 2013 (Amended in May 2016) and the Public Finance Management Act, 2012.

#### **Basis for Qualified Opinion**

##### **1. Long Term Receivables from Exchange Transactions - Loans and Advances**

The statement of financial position reflects long term receivables from exchange transactions-loans and advances totalling Kshs.217,264,000. The following observations were made regarding the balance:

##### **1.1 High Rate of Provisioning on Loans and Advances**

As disclosed under Note 16(iv) to the financial statements, the gross loans and advances reflected in the financial statements amounted to Kshs.16,503,648,000 with a total provision of Kshs.15,574,004,000 which translate to 94% of the loans and advances to farmers. Management has not given the basis for the huge provision for the loans.

Consequently, the validity, accuracy and full recoverability of the long-term receivables from exchange transactions - loans and advances totalling to Kshs.217,264,000 could not be confirmed.

## 1.2 Non-Performing Loans

Note 16(iv) to the financial statements reflects gross loans and advances amounting to Kshs.16,503,648,000. However, site visits to sampled regional offices and review of documents and records revealed a gross portfolio of Kshs.19,191,900,314 resulting into an unreconciled difference of Kshs.2,688,252,314. In addition, 96% of loans disbursed to the clients were overdue and non-performing as tabulated below:

	<b>Amount Advanced (Kshs.)</b>	<b>Total Outstanding (Kshs.)</b>	<b>Total Overdue (Kshs.)</b>
Nakuru	64,865,878	48,720,933	47,215,768
Kisumu	16,825,539,534	18,901,620,139	18,197,684,206
Kericho	489,226,981	108,360,681	94,500,746
Eldoret	246,410,379	133,198,562	97,360,358
<b>Total</b>	<b>17,626,042,772</b>	<b>19,191,900,315</b>	<b>18,436,761,077</b>
<b>Portfolio at Risk (PAR)</b>			<b>96%</b>

Further, no concrete efforts appear to have been made towards the recovery of the long outstanding balances and no documented criteria of appraising the borrowers and monitoring loan utilizations was provided.

Consequently, the validity, accuracy and completeness of the long-term receivables from exchange transactions - loans and advances totalling to Kshs.217,264,000 could not be confirmed.

## 1.3 Unsecured Loans to Intermediaries/Expired Loan Agency Agreements

A review of loans data disbursed through intermediaries indicated that the Fund held a total of Kshs.18,875,168,260 in arrears. These loans were issued to farmers by intermediaries on behalf of the Fund. The loan agency agreements were signed between the Fund and the intermediaries without any other security or collateral attached to the Fund. However, it was observed that the agreements held by the Fund were not valid as the timespan had lapsed. In addition, there was no existing collateral to cushion the Fund against default and thus there was risk of losing the outstanding amounts secured by the lapsed agency and tripartite agreements.

Consequently, the recoverability of the current and long-term receivables from exchange transactions - loans and advances totalling to Kshs.712,379,000 and Kshs.217,264,000 respectively could not be confirmed.

#### **1.4 Unreconciled Inter-Fund Transaction**

As disclosed under Notes 16(iii) and 16(iv) to the financial statements, the statement of financial position's total loan balance of Kshs.929,643,000 which comprises both current and non-current balances includes a gross balance of Kshs.1,153,280,952 relating to receivables from Agricultural Finance Corporation comprising of Kshs.1,101,581,612 and Kshs.51,699,340 for sugar and coffee loans respectively. However, confirmation of records from AFC reflects that the entity owes the Fund Kshs.9,515,756 resulting to an un-reconciled balance of Kshs.1,143,765,196.

Consequently, the validity, accuracy and completeness of the current and long-term receivables from exchange transactions-loans and advances totalling to Kshs.712,379,000 and Kshs.217,264,000 respectively could not be confirmed.

#### **2. Unrecovered Fund Transferred to the Ministry of Agriculture, Livestock and Fisheries**

As disclosed under Note 17 to the financial statements, the statement of financial position reflects receivables from non-exchange transactions of Kshs.46,055,000 which includes Kshs.40,000,000 transferred to the parent Ministry during the financial year 2016/2017. According to memos Ref: MOA/SDA/SC/40A dated 18 January, 2017 and Ref: MOALF/CORP/11/23/2 of 9 May, 2017, the Ministry was to reimburse these funds once the National Treasury released its budgeted funds for the year. However, the Ministry failed to reimburse the disbursements to the Fund.

In the circumstances, the accuracy and full recoverability of receivables from non-exchange transactions of Kshs.46,055,000 could not be confirmed.

#### **3. Loan Repayments - Payment Received in Advance**

As disclosed under Note 21 to the financial statements, the statement of financial position reflects trade and other payables from exchange transactions (creditors and accruals) totalling to Kshs.24,391,000. The amount includes payments received in advance of Kshs.10,643,000 which constitutes an amount of Kshs.5,527,735, being unidentified loan repayments, which were received by the fund but could not be linked to specific borrower/farmer accounts. The supporting schedules indicated that the amount was a cumulative figure from the year 2011 to 2020.

Further, the amount of Kshs.10,643,000 includes overpayment on loans and advances amounting to Kshs.5,115,510, which could not be traced to individual farmers. No satisfactory explanation was provided on why the amounts had not been reconciled to their respective debtors.

Consequently, the completeness and accuracy of the trade and other payables from exchange transactions (creditors and accruals) totalling to Kshs.24,391,000 could not be confirmed.

#### **4. Unconfirmed Expenditure on Maintenance of an ERP**

As disclosed under Note 12 to the financial statements, the statement of financial performance reflects expenditure of Kshs.10,685,000 under repairs and maintenance. The amount includes Kshs.4,535,734 described as office and communication equipment but which related to payment for an annual software renewal and support fee paid to a vendor.

However, the entity had not upgraded its Enterprise Resource Planning (ERP) to the latest available version and was using a previous version of the ERP which was less suited for the Fund's current needs and is prone to internet vulnerabilities. This is in spite of contractual obligations of Kshs.2,000,000 annual mandatory payments to the service provider for Business Ready Enhancement Plan subscriptions as outlined in the contract. The corresponding receipts from the vendor for the payment of the annual subscriptions were not provided for audit.

Under the circumstances, the accuracy and validity and value for money on the expenditure of Kshs.4,535,734 could not be confirmed.

#### **5. Irregular Appointment of Board Members**

As disclosed under Note 10 to the financial statements, the statement of financial performance reflects remuneration to trustees amounting to Kshs.17,738,000 which includes an amount of Kshs.4,280,000 paid to six members of the Board of Trustees and Ministry representatives whose letters of appointment were not provided for audit review.

Consequently, the appointment of the four Board Members and the validity of the expenditure amounting to Kshs.4,280,000 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Commodities 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

#### **Key Audit Matters**

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

## **Other Matter**

### **1. Budgetary Control and Performance**

The statement of comparative budget and actual amounts reflects a final revenue budget and actual on comparable basis of Kshs.598,622,000 and Kshs.481,165,000 respectively resulting to an under-funding of Kshs.117,457,000 or 20% of the budget. Similarly, the Fund expended Kshs.562,846,000 against an approved budget of Kshs.584,704,000 resulting to an under-expenditure of Kshs.21,858,000 or 20% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

### **2. Unresolved Prior Year issues**

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, although the Management has indicated that the issues have been responded to, the matters have remained unresolved as the Public Accounts Committee has not deliberated on the issues.

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

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that except for the matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

#### **1. Un-Approved Remuneration Structure**

As disclosed under Note 9 to the financial statements, the statement of financial performance reflects employees' costs amounting to Kshs.96,085,000 which includes salaries and wages, housing benefits and allowances, pensions contributions and medical aids. However, the salary structure and scale on payment of employees' salaries and allowances used by the Fund was not approved by the Salaries and Remuneration Commission contrary to Article 230(4) (b) of the Constitution which provides that the powers and functions of the Salaries and Remuneration Commission shall be to advise the National and County Governments on the remuneration and benefits of all other public officers.

Consequently, the Management is in breach of the law.

## **2. Compliance with the National Cohesion and Integration Commission Act, 2008**

As reflected under Note 9 to the financial statements, the statement of financial performance reflects employee costs amounting to Kshs.96,085,000. The amount comprises of salaries and wages, housing benefits and allowances, pensions contributions and medical aids. However, out of the fifty-six (56) regular employees of the Fund, twenty (20) representing 36% of the total employees were from one ethnic community contrary to the provision of Section 7(2) of the National Cohesion and Integration Commission Act, 2008 which provides that no public establishment shall have more than one third of its staff from the same ethnic community.

Consequently, the Management is in breach of the law

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

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

#### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that except for the matters described in the Basis for Conclusion on Internal Controls, Risk Management and Governance section of my report, nothing else had come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

#### **Basis for Conclusion**

##### **1. Laxity in Implementation of Off-site Back-up**

Site visit to the offsite back-up on 22 March, 2021 revealed the following:

- (i) The offsite back-up server was placed in an open area wherein the stipulated requirements for physical access and environmental conditions for server installations including manufacturers design temperature and humidity conditions cannot be implemented,
- (ii) Security Parameters governing access to the server were not defined and did not meet the minimum standards implemented at the head office,

- (iii) The server was placed in an open area with no controlled access,
- (iv) The building in which the server is located does not belong to the entity,
- (v) Access to the server is not monitored and physical access logs were not maintained.

In the circumstances, the entity risks loss of valuable sensitive data and the offsite servers are prone to theft and unwarranted destruction.

## **2. IT Internal Control and IT Governance Weaknesses**

During the year, the Fund had the following IT internal control weaknesses: -

- (i) The Fund had not established an IT Strategic Committee, an IT Steering Committee and has not undertaken any trainings of ICT Staff during the audit period.
- (ii) Further, no fire extinguishers have been installed in the Eldoret and Nakuru Branches; the entity was relying on extinguishers installed by the building owners to which they have no control of maintenance.
- (iii) The Fund has a local area network (LAN) installed in their regional offices. However, a visit to the sampled regions revealed that some of the offices were not using the LAN for internet connectivity since officers were not aware about the functionality. In case of downtime with WIFI, officers had to wait for resumption of WIFI so as to be able to access and use the system.
- (iv) The audit observed 5 computers (Coded 000474, 000005, 000022 and 000024) with no UPS Back-ups. All desktop computers at the Nakuru and Eldoret Branches have no power backups installed.
- (v) Management did not undertake proper training and sensitization on ICT functionality. Lack of continuous training in ICT hinders the ability of the entity to benefit from ICT solutions in achieving its mandate.

Consequently, IT governance and IT internal controls were not adequate or effective.

## **3. Functionality of the Board of Trustee**

As previously reported, the Crops Act, No.13 of 2013, which created the Fund did not spell out clearly the mandate of the Fund's Board of Trustees as well as its powers and responsibilities. The Fund is not established as a body corporate having perpetual succession and a common seal and may not, in its corporate name, sue and be sued, which hinders its operations. Consequently, the Fund's Board of Trustees ability to work independently and effectively in the absence of clear laws on its mandate, powers and responsibilities is doubtful.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standard requires that I plan and perform the audit to obtain assurance about whether processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

### **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 Fund's ability to continue to sustain its 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 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 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**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could

reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed 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.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of Commodities Fund to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related

disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease sustaining its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**26 May, 2021**

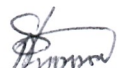
**13. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED  
30TH JUNE 2020**

	NOTES	2019/20	2018/19
		<u>Kshs '000</u>	<u>Kshs '000</u>
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Finance income - External investments	6	472,955	545,200
Other income	7	<u>7,757</u>	<u>3,719</u>
<b>Total revenue</b>		<b><u>480,712</u></b>	<b><u>548,918</u></b>
<b>Expenses</b>			
User of Good & Service	8	5,059	6,706
Employee cost	9	96,085	89,297
Remuneration of Trustees	10	17,738	27,050
Depreciation and amortization expense	11	17,114	21,566
Repairs and maintenance	12	10,685	5,512
General Expenses	13	<u>416,165</u>	<u>9,222,157</u>
<b>Total expenses</b>		<b><u>562,846</u></b>	<b><u>9,372,288</u></b>
<b>Other gains / (Losses)</b>			
Gain on Sale of Assets	14	453	951
<b>Surplus/(Deficit) for the period</b>		<b><u>(81,681)</u></b>	<b><u>(8,822,419)</u></b>

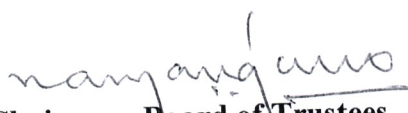
The notes set out on pages 8 to 33 form an integral part of these Financial Statements

  
Managing Trustee  
Nancy C. Cheruiyot, FCCA

Date: 22/07/21

  
Finance Manager  
Silas N. Njagi  
ICPAK No.5078

Date: 22/07/2021


  
Chairman, Board of Trustees  
Hon. Samson Okioma


Date: .....

**14. STATEMENT OF FINANCIAL POSITION AS AT 30<sup>TH</sup> JUNE 2020**  
**STATEMENT OF FINANCIAL POSITION**

	Notes	2019/2020 <u>Kshs '000</u>	2018/2019 <u>Kshs '000</u>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	15	1,125,807	1,369,530
Receivables from exchange transactions-Interest			
Receivable on Investment	16(i)	12,753	11,375
Receivables from exchange transactions-Interest on Loans & Advances	16(ii)	15,442	21,050
Current portion of Long-term receivables from exchange transactions-Loans and advances	16(iii)	712,379	343,020
Receivables from non-exchange transactions	17	46,055	45,455
Inventory- Consumables	18	794	1,085
<b>Total Current Assets</b>		<b><u>1,913,230</u></b>	<b><u>1,791,515</u></b>
<b>Non-current assets</b>			
Property, plant and equipment	19 (i)	26,199	32,061
Intangible Assets- Software	19(ii)	29,623	31,945
Investments	20	120,615	109,402
Loan Term Receivables from Receivables from Exchange Transaction -Loans and Advances	16(iv)	217,264	420,323
<b>Total non-current assets</b>		<b><u>393,702</u></b>	<b><u>593,731</u></b>
<b>Total assets</b>		<b><u>2,306,931</u></b>	<b><u>2,385,246</u></b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables from exchange transactions (Creditors and accruals)	21	24,391	23,816
Refundable Deposits from Customers			
Payment Received in Advance			
<b>Total liabilities</b>		<b><u>24,391</u></b>	<b><u>23,816</u></b>
<b>Net assets</b>		<b><u>2,282,540</u></b>	<b><u>2,361,431</u></b>
Reserves	22	15,233,139	15,233,139
Accumulated surplus	23	(12,950,599)	(12,871,708)
<b>Total net assets and liabilities</b>		<b><u>2,282,540</u></b>	<b><u>2,361,431</u></b>

The Financial statement set out on pages 1 to 62 were signed on behalf of the Board of Directors by:

  
**Managing Trustee**  
**Nancy C. Cheruiyot, FCCA**

  
**Finance Manager**  
**Silas N. Njagi**  
**ICPAK No.5078**

**Chairman, Board of Trustees**  
**Hon. Samson Okioma**

Date... 22/06/2021


Date... 22/04/2021


Date.....

**XIV. STATEMENT OF CHANGES IN NET ASSETS**

	Attributable to the owners of the controlling entity						Total Kshs '000
	Notes	Revolving fund Sugar	Revolving Fund Coffee	Grants reserve	Reserves Revaluation Reserve	Revenue Reserve	
		Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000
<b>Balance as at 01.07. 2018</b>		<b>13,554,512</b>	<b>1,675,206</b>	<b>-</b>	<b>3,421</b>	<b>(4,050,535)</b>	<b>11,182,604</b>
Adjustment of Overstated Amortization Expense in FY2017.18		-			1,247		1,247
Surplus for the year		-	-	-	-	(8,822,419)	(8,822,419)
		=	=	=	=	=	=
<b>Balance as at 30 JUNE 2019</b>		<b><u>13,554,512</u></b>	<b><u>1,675,206</u></b>	<b><u>-</u></b>	<b><u>3,421</u></b>	<b><u>(12,871,708)</u></b>	<b><u>2,361,431</u></b>
<b>Balance as at 01.07. 2019</b>		<b>13,554,512</b>	<b>1,675,206</b>	<b>-</b>	<b>3,421</b>	<b>(12,871,708)</b>	<b>2,361,431</b>
Adjustment for Reversal of Provision for Overlent Amount by Taifa Sacco						2,790	2,790
Surplus for the year		-	-	-	-	(81,681)	(81,681)
		=	=	=	=	=	=
<b>Balance as at 30 JUNE 2020</b>		<b><u>13,554,512</u></b>	<b><u>1,675,206</u></b>	<b><u>-</u></b>	<b><u>3,421</u></b>	<b><u>(12,950,599)</u></b>	<b><u>2,282,540</u></b>

  
Managing Trustee  
Nancy C. Cheruiyot, FCCA


  
Finance Manager  
Silas N. Njagi  
ICPAK No.5078  
Date: 22/06/2021

  
Chairman, Board of Trustees  
Hon. Samson Okioma


Date:.....

**XVI. STATEMENT OF CASH FLOWS AS AT 30TH JUNE 2020**

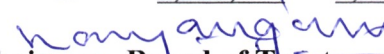
Cash generated from operations	Notes	2019/2020 <u>Shs 000</u>	2018/2019 <u>Shs 000</u>
<b>Surplus/(Deficit) for the year before tax</b>		<b>(81,681)</b>	<b>(8,822,419)</b>
Adjusted for:			
Depreciation	10	17,114	21,566
Non-cash adjustment to equity		(327,092)	(9,113,573)
Adjustment for Reversal of Provision for Overlent Amount by Taifa Sacco		2,790	
Contributed assets			
Impairment			
Gains and losses on disposal of assets		(453)	(951)
Contribution to provisions		327,092	9,113,574
Contribution to impairment allowance			
Finance income-External investment- Non-Exchange Transactions	6(i)	(95,488)	(115,075)
Finance cost			
<b>Working capital adjustments:</b>			
Decrease in current & non-current receivables from exchange transaction - loans and Advances		(166,300)	7,918,161
Decrease in current receivable from exchange and non - exchange transaction.		3,631	1,283,484
Decrease in deferred income			
Decrease in trade and other payables from exchange transactions (Creditors & Accruals)		575	3,032
Increase/Decrease in inventory- Consumables		291	(445.00)
<b>Net cash flows from operating activities</b>		<b><u>(319,522)</u></b>	<b><u>290,146</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant, equipment and intangible assets	19	(8,927)	(10,352)
Proceeds from disposal of Assets		453	951
Investment-HFCK Mortgage Scheme	20	(11,213)	27,997
Finance Income -External Investment -non Exchange Transactions	6(i)	95,486	115,075
<b>Net cash flows used in investing activities</b>		<b><u>75,799</u></b>	<b><u>133,671</u></b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings			
Repayment of borrowings			
Capital grants from government		-	-
<b>Net cash flows used in financing activities</b>		<b>-</b>	<b>-</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(243,723)</b>	<b>423,816</b>
Cash and cash equivalents as at 1 July 2018		<u>1,369,530</u>	<u>945,714</u>
<b>Cash and cash equivalents at 30 June 2019</b>	<b>15</b>	<b><u>1,125,807</u></b>	<b><u>1,369,530</u></b>

  
Managing Trustee  
Nancy C. Cheruiyot, FCCA

Date: 22/04/2021

  
Finance Manager  
Silas N. Njagi  
ICPAK No.5078


Date: 22/04/2021

  
Chairman, Board of Trustees  
Hon. Samson Okioma


Date:.....

**XVII. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**


	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% change
<b>ITEM DESCRIPTION</b>	<b>2019-2020</b>	<b>2019-2020</b>	<b>2019- 2020</b>	<b>2019-2020</b>	<b>2019-2020</b>	
<b>Revenue</b>	<b>Kshs '000</b>	<b>Kshs '000</b>	<b>Kshs '000</b>	<b>Kshs '000</b>	<b>Kshs '000</b>	
Rendering of Services	494,807	-	494,807	385,223	(109,584)	-22%
Government Grants- Recurrent	-	-	-	-	-	0%
Finance Income	103,815	-	103,815	95,488	(8,327)	-8%
Gain on Disposal of Asset	-	-	0	453	453	100%
<b>Total Revenue</b>	<b>598,622</b>	<b>-</b>	<b>598,622</b>	<b>481,165</b>	<b>(117,457)</b>	<b>-20%</b>
<b>Expenses</b>						
Compensation of Employees	124,713	-	124,713	86,608	38,105	31%
Goods and Services	8,553	-	8,553	5,059	3,494	41%
Finance Cost	900	-	900	902	(2)	0%
Rent Expenses	12,137	-	12,137	11,604	533	4%
Other Payments	-	-	-	-	-	-
a) Board Expenses	24,604	-	24,604	17,738	6,866	28%
b) Credit & Field Expenses	292,509	-	292,509	343,177	(50,668)	-17%
c) Corporate Communications	12,009	-	12,009	11,285	724	6%
d) Human Resource Costs	18,830	-	18,830	18,956	(126)	-1%
e) Audit Expenses	4,544	-	4,544	2,897	1,647	36%
f) Finance & Administration Costs	47,012	-	47,012	36,821	10,191	22%
e) Repairs and Maintenance Costs	12,972	-	12,972	10,686	2,286	18%
e) Depreciation Costs	25,921	-	25,921	17,114	8,807	34%
<b>Total Expenditures</b>	<b>584,704</b>	<b>-</b>	<b>584,704</b>	<b>562,846</b>	<b>21,858</b>	<b>4%</b>
<b>Surplus for the Period</b>	<b>13,918</b>	<b>-</b>	<b>13,918</b>	<b>(81,681)</b>	<b>(139,315)</b>	<b>1001%</b>

  
Managing Trustee  
Nancy C. Cheruiyot, FCCA

Date: 22/04/20

  
Finance Manager  
Silas N. Njagi  
ICPAK No.5078

Date: 22/04/2021

  
Chairman, Board of Trustees  
Hon. Samson Okioma

Date: .....

**NOTES EXPLAINING THE VARIANCES BETWEEN THE BUDGET AND THE ACTUAL AMOUNTS**

**1. Revenues**

The internally generated income which include interest on loans and investments amounted to Kshs. 492,053,000 against budget of Kshs. 598,622,000 falling short of the budget by Kshs. 106,569,000. The shortfall is attributed to freeze of interest on loans that have reached the set criteria. Secondly, market interest rate on fixed deposit continue to decline in the year thus lowering the budgeted investment income. Further, the Fund disbursed more loans than budgeted thus reducing cash available for investment.

**2. Compensation of Employees**

The total personnel expenditure was Kshs. 86,608,000 against budget of Kshs. 124,713,000 resulting to positive variance of Kshs. 38,105,000. The huge positive variance under the vote was due to the fact that the budgeted salary adjustments were not implemented pending approvals by the concerned state agencies. Secondly the Comfund had budgeted to employ 13 additional staff that was not achieved since authority to employ was granted in May, 2020.

**3. Goods and Services**

The Good and services expenses includes Electricity, Water ,Security, Professional Fee and Subscriptions and legal costs which amounted to Kshs. 5,059,000 against budget of Kshs. 8,556,000 resulting to positive variance of Kshs. 3,494,000. The variance is attributed to the fact that the one of the court case budgeted for was not concluded as anticipated.

**3. Board expenses**

The Board expenses amounted to Kshs. 17,738,000 against budget of Kshs. 24,604,000 resulting to positive variance of Kshs. 6,866,000. The positive variance is as result of reduced meeting and other board activities such as training due to restrictions occasioned by Covid -19.

**4. Credit Management Expenses**

The actual Credit Management expenses were Kshs. 347,937,000 against a budget of Kshs. 292,509,000 resulting to a negative variance of Kshs. 55,428,000. This huge negative variance was occasioned by loans provisions amounting to Kshs, 331,852,000 which exceeded the budget of Kshs.250,000,000 by Kshs. 81,852,000. Loans repayment has remained low due to various challenges facing both sugar and coffee sectors. The Fund was unable to operationalize the planned debt collection unit due to low staffing capacity in credit.

**5. Corporate Communications**

Corporate communications vote incurred Kshs. 11,285,000 against a budget of Kshs. 12,009,000 resulting to positive variance of Kshs.724,000. The variance is a result of activities that were not taken due restrictions imposed due to Covid-19.

**6. Human Resources**

Human resource vote comprising of training, staff welfare and consultancies incurred a total of Kshs. 18,956,000 against budgeted amounts of Kshs. 18,830,000 resulting to negative variance of Kshs. 126,000.

**7. Finance and Administrative Cost**

Finance & Administrative cost amounted to Kshs. 36,821,000 against a budget of Kshs. 47,012,000 resulting to a positive variance of Kshs. 10,191,000. This positive variance is as result of activities not taken due restriction imposed by government to contain spread of Covid-19 Pandemic. Further, funds set aside for staff medical and insurance as well as insurances for

assets were not incurred due to fact that planned employment was not undertaken and assets were not procured as planned.

#### **8. Repairs and Maintenance Costs**

The Comfund Repairs and Maintenance Costs budget was Kshs 12,972,000 while the actual amount incurred stood at Kshs 10,686,000. The positive variance of Kshs 2,286,000 was occasioned by low breakages and efficient utilization of assets. Again, assets were not utilized as much during Covid-19 period leading to lower maintenance cost.

#### **10. Depreciation and amortization cost**

Depreciation and amortization of assets and intangible assets amounted to Kshs. 16,852,00 against budget of Kshs. 25,921,000 resulting variance of Kshs.9,069,000. This under expenditure is explained by the fact that a number of ICT items budgeted for acquisition were not purchased as normal operations were interrupted by emergence of Covid-19.

## 15. NOTES TO THE FINANCIAL STATEMENTS

### 1. General Information

Commodities Fund is established by and drives its authority and accountability from Crops Act 2013 Section 9 (Amended in May 2016). The Comfund is wholly owned by the Government of Kenya and is domiciled in Kenya. The Comfund's principal activity is to provide sustainable, affordable and accessible credit and advances to farmers.

### 2. Statement of Compliance and Basis of Preparation

The Comfund's 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 is 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 Commodities Fund accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Comfund.

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

The cash flow statement is prepared using the indirect method. The financial statements are prepared on accrual basis.

### 3. Adoption of New and Revised Standards

#### i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2019

Standard	Impact
IPSAS 41: Financial Instruments	<b>Applicable: 1<sup>st</sup> January 2022</b> The objective to issue IPSAS 41 is to establish principles for the financial assets and liabilities and will present relevant and useful information to the users of financial statement for their assessment of the amounts, timings and uncertainty of an entity's future cash flows.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

<b>Standard</b>	<b>Effective date and impact:</b>
	<p><b>Applicable: 1<sup>st</sup> January 2022:</b> IPSAS 41 provides users of financial statements with more useful information than IPSAS 29 by:</p> <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 flow and 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 arrangement in a scope of the guidance. The model develops a strong link between entity's risk management strategies and accounting treatment for instruments held as part of the risk management strategy.</li> </ul>

**i) Early adoption of standards**

The Comfund has opted to adopt the IPSAS 41 in year 2019.

Impact of adoption

Prior to adoption of IPSAS41, the Comfund used provisioning model based on due date of the of loan receivables. Provisioning would commence once the entire loan was due for payment and the applicable rates were as follows:

Not Due	-	No Provision
Due between one day to one year	-	1%
Due Above one year to three years	-	2 %
Due Above three years to five years	-	15%
Due beyond five years	-	100%

Application of the above model as at 30<sup>th</sup> June 2019 resulted provisions as illustrated follows:

The provisioning model adopted in 2019/20 which is aligned to the prudential guideline issued by the central of Kenya and the requirements of IPSAS 41 is as follows:

Performing	(No instalment in arrears)	-	1%
Watch	(1-3 instalment in arrears)	-	3%
Substandard	(4-6 Instalments in arrears)	-	20%
Doubtful	(7-12 Instalment in arrears)	-	100%
Loss	(Above 12 Instalments in arrears)	-	100%

Resultant provisions based on the model is as follows:

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**CLASSIFICATION OF THE PRINCIPAL COMPONENT OF SUGAR LOANS AS AT 30TH JUNE 2020**

CATEGORY	OUTSTANDING PRINCIPAL	PROVISION RATE	PROVISION JUNE 2020	PROVISION JUNE 2019	INCREASE IN PROVISION
NORMAL (GRADE 1) - 1%	563,257,498.00	1%	5,632,574.98	4,828,024.49	804,550.49
WATCH (GRADE 2) - 3%	0.00	3%	0.00	1,051,687.69	(1,051,687.69)
SUB-STANDARD (GRADE 3) - 20%	0.00	20%	0.00	12,414,641.90	(12,414,641.90)
DOUBTFUL (GRADE 4) - 100%	16,919,262.77	100%	16,919,262.77	491,581,871.97	(474,662,609.20)
LOSS (GRADE 5) - 100%	14,742,732,969.73	100%	14,742,732,969.73	14,248,451,299.89	494,281,669.84
<b>TOTAL</b>	<b>15,322,909,730.50</b>		<b>14,765,284,807.48</b>	<b>14,758,327,525.94</b>	<b>6,957,281.55</b>

**CLASSIFICATION OF THE INTEREST COMPONENT OF SUGAR LOANS AS AT 30TH JUNE 2020**

CATEGORY	OUTSTANDING INTEREST	PROVISION RATE	PROVISION JUNE 2020	PROVISION JUNE 2019	INCREASE IN PROVISION
NORMAL (GRADE 1) - 1%	7,102,336.87	1%	71,023.37	20,181.13	50,842.23
WATCH (GRADE 2) - 3%	0.00	3%	0.00	5,256.52	(5,256.52)
SUB-STANDARD (GRADE 3) - 20%	377,038.47	20%	75,407.69	162,719.39	(87,311.69)
DOUBTFUL (GRADE 4) - 100%	0.00	100%	0.00	20,502,683.28	(20,502,683.28)
LOSS (GRADE 5) - 100%	4,093,877,620.33	100%	4,093,877,620.33	3,832,410,551.82	261,467,068.51
<b>TOTAL</b>	<b>4,101,356,995.67</b>		<b>4,094,024,051.39</b>	<b>3,853,101,392.15</b>	<b>240,922,659.24</b>

**CLASSIFICATION OF THE PRINCIPAL COMPONENT OF COFFEE LOANS AS AT 30TH JUNE 2020**

CATEGORY	OUTSTANDING PRINCIPAL	PROVISION RATE	PROVISION JUNE 2020	PROVISION JUNE 2019	INCREASE IN PROVISION
NORMAL (GRADE 1) - 1%	351,293,147.31	1%	3,512,931.47	1,388,122.58	2,124,808.89
WATCH (GRADE 2) - 3%	20,363,386.12	3%	610,901.58	1,947,717.39	(1,336,815.80)
SUB-STANDARD (GRADE 3) - 20%	5,606,414.44	20%	1,121,282.89	1,023,747.12	97,535.77
DOUBTFUL (GRADE 4) - 100%	32,660,760.75	100%	32,660,760.75	13,676,609.58	18,984,151.17
LOSS (GRADE 5) - 100%	773,603,881.41	100%	770,813,872.41	728,765,651.82	42,048,220.59
<b>TOTAL</b>	<b>1,148,824,491.00</b>		<b>808,719,749.10</b>	<b>746,801,848.49</b>	<b>61,917,900.62</b>

**CLASSIFICATION OF THE INTEREST COMPONENT OF COFFEE LOANS AS AT 30TH JUNE 2020**

CATEGORY	OUTSTANDING INTEREST	PROVISION RATE	PROVISION JUNE 2020	PROVISION JUNE 2019	INCREASE IN PROVISION
NORMAL (GRADE 1) - 1%	7,310,428.67	1%	73,104.29	51,862.85	21,241.43
WATCH (GRADE 2) - 3%	617,177.48	3%	18,515.32	395,539.60	(377,024.28)
SUB-STANDARD (GRADE 3) - 20%	339,714.38	20%	67,942.88	76,595.65	(8,652.77)
DOUBTFUL (GRADE 4) - 100%	2,281,682.41	100%	2,281,682.41	1,036,608.32	1,245,074.09
LOSS (GRADE 5) - 100%	322,309,906.54	100%	322,309,906.54	305,896,128.80	16,413,777.74
<b>TOTAL</b>	<b>332,858,909.48</b>		<b>324,751,151.44</b>	<b>307,456,735.22</b>	<b>17,294,416.22</b>

**TOTAL INCREASE ON PROVISIONS ON LOANS & INTEREST JUNE 2020**

**327,092,257.62**

Whereas the best practice recommends charging such provisions retrospectively, it was impractical to identify and isolate specific provision for prior periods and as a result all provisions was charged in the period under review.

#### **4. Summary of Significant Accounting Policies**

##### **a) Revenue recognition**

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

###### **Fees and Commission Income**

Fees and commission income is generally recognized on an accrual basis.

###### **ii) Revenue from exchange transactions**

##### **Interest income**

Interest income is recognized on an accruals basis in the Statement of Comprehensive Income using the effective yield on the loan. When financial assets become impaired, any inherent income/revenue is thereafter recognized at rates used to discount future cash flows for the purpose of measuring the recoverable amount.

##### **Interest Income and Expense**

Interest income and expenses are recognized in the Statement of Comprehensive Income for all interest-bearing Instrument on an accrual basis taking into account the effective yield on the assets.

###### **➤ Interest Computation**

Comfund's loans are on lent to coffee farmers at a rate of between 4 and 10 % per annum depending on loan type.

**b) Budget information**

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of Comfund. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or Comfund differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

**c) Taxation**

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 Comfund operates and generates taxable income or consumes taxable goods and services.

Current tax obligation is amount recovered in process of payment for goods and services attracting taxes which the Comfund is required to recover and submit to tax authority.

**d) Property, plant and equipment**

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition Criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

Depreciation is calculated on a straight-line basis to write down the cost of each asset to its residual value over its estimated useful life using the following annual rates.

Motor Vehicles	-	25%
Equipment	-	20%
ICT Equipment	-	33 <sup>1</sup> / <sub>3</sub> %
Furniture and Fittings	-	12.5%
Plant- Generator	-	10%
Intangibles	-	8%

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Property and equipment are periodically reviewed for impairment. Where the carrying amount of property and equipment is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains or losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating surplus.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### e) Financial Instruments

#### Financial Assets

##### Initial Recognition

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Entity determines the classification of its financial assets at initial recognition.

##### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

##### Impairment of financial Asset

##### Originating loans and provision for loans impairment

Loans are originated by the Comfund by providing money to the coffee farmers and sugar companies/sugarcane out growers' institutions and are categorized as loans originated by the Comfund.

Specific provision is made against loans and advances at different rates applicable to each of the five loan categories. The amount of provision is the difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows discounted at the effective interest rate of loans.

The provisioning rates adopted from 2018/19 are as follows:

Performing	(No instalment in arrears)	- 1%
Watch	(1-3 instalment in arrears)	- 3%
Substandard	(4-6 Instalments in arrears)	- 20%
Doubtful	(7-12 Instalment in arrears)	- 100%
Loss	(Above 12 Instalments in arrears)	- 100%

Where a loan or an advance in loss category is declared irrecoverable, authority is sought from the National Treasury to write off the debts against the related provision for impairments.

Subsequent recoveries of amount previously written off are credited to the Statement of Financial Performance in the year of recovery. Loans and advances are stated net of provisions in the statement of financial position.

##### Financial Liabilities-Payables

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Comfund determines the classification of its financial liabilities at initial recognition.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

### **f) 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.

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.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Entity.

### **g) Provisions**

Provisions are recognized when the Entity 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.

For the period ended 30<sup>th</sup> June 2019 Comfund did not have any present obligation to warrant provision.

### **h) Nature and purpose of reserves**

The Comfund has created and maintained reserves in terms of specific requirements. For this purpose the Comfund maintains capital reserves where all capital grants meant for loans disbursement are accumulated. In addition the Comfund maintains revaluation reserves where appreciation in value of assets is credited. An accumulated surplus reserve is also maintained where the surpluses/deficits resulting from the performance are accumulated

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

The Comfund 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) Employee benefits Retirement benefit plans**

The Comfund sponsors a defined contribution pension scheme for its employees funded partly by the Comfund 20% and staff 10% and administered by external providers. Comfund's obligation towards the scheme is limited to its 20% contribution which if not wholly limited, the unlimited portion is accrued in the financial statements at the year end.

## **NOTES TO THE FINANCIAL STATEMENTS (Continued)**

The Comfund also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF) a national retirement benefit scheme. This is a defined contribution scheme registered under the National Social Security Act.

The Comfund's obligation under the scheme is limited to the specific contributions legislated by government from time to time. Comfund's contribution towards the two schemes is charged in the financial statements.

### **k) Related Parties**

The Management regards a related party as a person or an authority with the ability to exert control individually, jointly or to exercise significant influence over the Management, or vice versa. Within the Comfund, Trustees and members of key management are viewed as related parties while outside the Comfund, Agriculture and Food Authority (AFA) was taken as related party. The Comfund got its first trustees in the last quarter of the year.

### **l) 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 various commercial banks at the end of the financial year.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### **m) Comparative figures**

Comparative figures represent figures for the (12) months period ended 30<sup>th</sup> June, 2016 and were necessary restated to conform to the requirement of IPSAS.

### **n) 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, 2018.

## **5. Significant Judgements and Sources of Estimation Uncertainty**

### **Estimates and Assumptions**

In the process of applying the Comfund's accounting policies, the Comfund's Management make certain judgments, estimates and assumptions that are continuously evaluated and assessed for adjustments based on prior experience and other determinants, including expectations of future events that are believed to be reasonable under the prevailing circumstances.

Although these estimates are based on the Management best knowledge of current events and actions, in practice actual results may differ from these estimates. Such estimates and assumptions 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 in these notes to the Financial Statements.

#### **a) Key sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position date that has a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year:

#### **b) Equipment**

Critical estimates are made by the Management in determining depreciation rates of equipment.

#### **c) Impairment**

At each statement of financial position date, the management reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, managements estimates the recoverable amount of the cash generating unit to which the asset belongs.

#### **d) Provisions and contingent liabilities**

Management reviews Comfund's obligations at each balance sheet date to determine whether provisions need to be made. Where it is determined provisions are required, estimation is based on existing internal policy of the Comfund.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

### *Contingent liabilities*

The Comfund 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.

### *Contingent assets*

The Comfund 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 Comfund 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.

### 6. Finance income - external investments

	2019/2020	2018/2019
	Kshs '000	Kshs '000
Interest Income from Treasury Bonds	3,897	7,134
Cash Investment and Fixed deposits- Received	78,821	96,565
Income		
-Accrued Income	12,770	11,376
Interest Income Loans Debtors		
-Coffee Portfolio	38,857	49,261
-Sugar Portfolio	338,609	380,864
<b>Total finance income – external investments</b>	<b><u>472,955</u></b>	<b><u>545,200</u></b>

Comfund invests its excess liquid cash in short term deposits with the approved financial institutions to generate income pending disbursement of such funds. Further, the Fund held 12 Year GOK Infrastructure Bond of Kshs.35,955,000 which will mature in 2022. Interest to Coffee and Sugar Sector is charged between 4 and 10% p.a depending on loan type.

### 7. Other income

	2019/2020	2018/2019
	Kshs '000	Kshs '000
Loan Processing fee	7,631	3,653
Others	<u>126</u>	<u>66</u>
<b>Total other income</b>	<b><u>7,757</u></b>	<b><u>3,719</u></b>

Loan processing fee of 1.5% of the approved loan amount is charged on all loans issued by the Comfund.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**8. User of Good & Service**

	<b>2019/2020</b>	<b>2018/2019</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
Electricity & Water	930	758
Security	1,034	914
Professional Services	2,411	4,248
Subscriptions	<u>684</u>	<u>786</u>
<b>Total goods and services</b>	<b><u>5,059</u></b>	<b><u>6,706</u></b>

**9. Employee costs**

	<b>2019/2020</b>	<b>2018/2019</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
Salaries & wages	54,971	51,082
Employee related cost-Pensions contributions & Medical Aids	18,795	17,707
Housing benefits and allowances	<u>22,319</u>	<u>20,507</u>
<b>Total Employee Costs</b>	<b><u>96,085</u></b>	<b><u>89,297</u></b>

**10. Remunerations of Trustees**

	<b>2019/2020</b>	<b>2018/2019</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
Chairman's Honorarium	960	526
Trustees Sitting, accommodation & Subsistence Allowances	11,843	19,484
Others(Trainings ,medical, Travel etc)	<u>4,935</u>	<u>7,040</u>
<b>Total Trustee's Remuneration</b>	<b><u>17,738</u></b>	<b><u>27,050</u></b>

**11. Depreciation and amortization expense**

	<b>2019/2020</b>	<b>2018/2019</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
Property, plant and equipment	14,179	18,887
Intangible Assets	<u>2,935</u>	<u>2,679</u>
<b>Total depreciation and amortization</b>	<b><u>17,114</u></b>	<b><u>21,566</u></b>

**12. Repairs and maintenance**

	<b>2019/2020</b>	<b>2018/2019</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
Buildings	635	298
Automobiles	2,366	2,102
Computer and Electronic Equipment's	3,132	2,926

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

Office and Communication Equipment	4,536	-
Furniture and Fittings	15	186
<b>Total repairs and maintenance</b>	<b><u>10,685</u></b>	<b><u>5,512</u></b>

**13. General expenses**

	<b>2019/2020</b>	<b>2018/2019</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
Printing and Stationery	2,597	3,316
Communication Telephone and Postage	2,578	2,215
Vehicle Running Expenses	5,234	6,886
Insurance Expenses	3,468	4,887
Stakeholder Forum Expenses	7,725	7,319
International travel	3,542	8,664
Rent and rates	11,604	11,027
Cleaning, Garbage & Sanitary	132	292
Management Fees	-	-
Newspapers, Periodicals, Journals and subscriptions	330	584
Advertising and Publicity	4,014	2,476
Bank Charges	902	868
Staff Welfare	2,392	2,427
Trainings, Seminar, Retreats and Workshops	16,431	11,809
Travel, Accommodation, subsistence and other Allowances	17,492	25,135
Shows , Exhibitions & trade fairs	2,046	4,778
Corporate Social Responsibility	1,529	1,851
Provision for bad debts	327,092	9,113,574
Office general expenses	2,972	4,442
ICCP Expenses	4,040	5,461
Corporate planning & Strategic Plan	47	4,147
<b>Total general expenses</b>	<b><u>416,165</u></b>	<b><u>9,222,157</u></b>

**14. Gain on Disposal of Asset**

	<b>2019/2020</b>	<b>2018/2019</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
Gain in Disposal of Motor Vehicle	452,770	950,784
<b>Total Gain on Disposal of Asset</b>	<b><u>452,770</u></b>	<b><u>950,784</u></b>

**15 (a) Detailed analysis Cash and cash equivalents**

<b>Financial Institution</b>	<b>Account number</b>	<b>2019/2020</b>	<b>2018/2019</b>
		<b>Kshs '000</b>	<b>Kshs '000</b>
<b>a) Current Account</b>			
Co-operative Bank (a)	O1136030994600	6,213	2,792
	(b)	1,806	13,395
	(c)	2,494	4,333

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

National Bank	O1345061389300	9,011	950
Sidian Bank	O1033020007800	2	6
Equity Bank	O1330299214184	0	0
Family Bank	O14000033336	76	41
Kenya Commercial Bank	O1132784905	(1)	1
<b>Sub-total</b>		<b><u>19,602</u></b>	<b><u>21,518</u></b>
<b>b) On – Call Deposits Account</b>			
Cooperative Bank	O1150035349811	62,000	-
National Bank	O1400061389303	<u>0</u>	-
<b>Sub-total</b>		<b><u>62,000</u></b>	<b><u>-</u></b>
<b>c) Fixed Deposits Account</b>			
National Industrial Credit	1000124326	263,886	299,385
Cooperative Bank	O1136030994600	102,781	337,171
Family Bank	O14000033336	204,614	333,837
Development Bank	3201180006	-	373,420
Kenya Commercial Bank	O1132784905	290,526	
National Bank of Kenya	O1345061389300	<u>182,304</u>	
<b>Sub-total</b>		<b><u>1,044,112</u></b>	<b><u>1,343,814</u></b>
<b>d) Others</b>			
Safaricom -Mkahawa	552601	8	2,071
-Pay Bill	552600	86	2,128
<b>Sub-total</b>		<b><u>93</u></b>	<b><u>4,199</u></b>
<b>Grand Total</b>		<b><u>1,125,807</u></b>	<b><u>1,369,530</u></b>

**16. Receivables from exchange transactions**

	<b>2019/2020</b>	<b>2018/2019</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
<b>(i) Current receivables from investments</b>		
Interest receivable from investments	<u>12,753</u>	<u>11,375</u>
<b>Total current receivables</b>	<b><u>12,753</u></b>	<b><u>11,375</u></b>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**(ii) Interest on loans and Advances**

	<b>2018/2019</b>		
	<b>Sugar</b>	<b>Coffee</b>	<b>Total</b>
	<b>Kshs 000</b>	<b>Kshs 000</b>	<b>Kshs 000</b>
Gross Interest on loans and Advances	<b>3,855,920</b>	<b>325,687</b>	<b>4,181,607</b>
Restated Provisions as at 01.08.18	2,408,687	163,990	2,572,677
Provision charge for the year	1,444,414	143,465	1,587,879
Total provisions as at 30.6.19	<b><u>3,853,101</u></b>	<b><u>307,457</u></b>	<b><u>4,160,558</u></b>
<b>Net Interest on Loans and Advances as at 30.6.19</b>	<b><u>2,819</u></b>	<b><u>18,230</u></b>	<b><u>21,049</u></b>

	<b>2019/2020</b>		
	<b>Sugar</b>	<b>Coffee</b>	<b>Total</b>
	<b>Kshs 000</b>	<b>Kshs 000</b>	<b>Kshs 000</b>
Gross Interest on loans and Advances	<b>4,101,357</b>	<b>332,859</b>	<b>4,434,216</b>
Restated Provisions as at 01.07.19	3,853,101	307,456	4,160,557
Provision charge for the year	240,923	17,294	258,217
Total provisions as at 30.6.20	<b><u>4,094,024</u></b>	<b><u>324,751</u></b>	<b><u>4,418,775</u></b>
<b>Net Interest on Loans and Advances as at 30.6.20</b>	<b><u>7,333</u></b>	<b><u>8,108</u></b>	<b><u>15,441</u></b>

**(iii) Current receivables Loans and Advances**

	<b>2019/2020</b>	<b>2018/2019</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
Loans and Advances from exchange transactions- Coffee Portfolio	280,760	178,950
Sugar Portfolio	431,619	164,070
	<b>712,379</b>	<b>343,020</b>
<b>Total Current Receivables</b>	<b><u>740,572</u></b>	<b><u>375,444</u></b>

**(iv) Non -current receivables**

**Loans and Advances from exchange transactions**

	<b>2018/2019</b>		
	<b>Sugar</b>	<b>Coffee</b>	<b>Total</b>
	<b>Kshs 000</b>	<b>Kshs 000</b>	<b>Kshs 000</b>
Gross Loans and Advances	<b>15,319,965</b>	<b>951,297</b>	<b>16,271,262</b>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

Restated Provisions as at 01.07.19	7,651,698	327,739	7,979,437
Provision charge for the year	<u>7,106,629</u>	<u>419,063</u>	<u>7,525,692</u>
Total provisions as at 30.6.19	14,758,328	746,802	15,505,130
Net Loans and Advances as at 30.6.19	<u>561,638</u>	<u>204,495</u>	<u>766,133</u>

Current Portion transferred to current receivables	<u>164,070</u>	<u>178,950</u>	<u>343,020</u>
<b>Total non-current receivables</b>	<u>397,568</u>	<u>25,545</u>	<u>423,113</u>

<b>Total Receivables</b>	<u>561,638</u>	<u>204,495</u>	<u>766,133</u>
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	2019/2020		
	Sugar	Coffee	Total
	Kshs 000	Kshs 000	Kshs 000
<b>Gross Loans and Advances</b>	<b>15,322,910</b>	<b>1,180,738</b>	<b>16,503,648</b>
Restated Provisions as at 01.07.19	14,758,327	714,839	15,507,919
Adjustment for Provision on Receivables Reclassified as Loans		34,703	34,703
Adjustment for Reversal of Provision Over Lent to Farmers by Taifa Sacco		(2,790)	(2,790)
Provision charge for the year	<u>6,957</u>	<u>61,968</u>	<u>68,925</u>
Total provisions as at 30.6.20	<u>14,765,285</u>	<u>808,720</u>	<u>15,574,004</u>
Net Loans and Advances as at 30.6.20	<u>557,625</u>	<u>372,018</u>	<u>929,643</u>
<b>Current Portion transferred to current receivables</b>	<u>431,619</u>	<u>280,760</u>	<u>712,379</u>
<b>Total non-current receivables</b>	<u>126,006</u>	<u>91,258</u>	<u>217,264</u>
<b>Total Receivables</b>	<u>557,625</u>	<u>372,018</u>	<u>929,643</u>

17. Receivables from non-exchange contracts	2019/2020	2018/2019
Current receivables	Kshs '000	Kshs '000
Funds held by Intermediaries	34,703	34,753
Adjustment for Receivables Reclassified as Loans	(34,703)	
Prepayments	5,979	5,391
Staff debtors	76	64
Other Debtors -Ministry	<u>40,000</u>	<u>40,000</u>
	<u>46,055</u>	<u>45,455</u>
Less Provisions on Receivables from non-Exchange contracts	34,703	34,753

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

Adjustment for Provision on Receivables Reclassified as Loans	(34,703)	-
Less Provisions on Receivables from non-Exchange contracts	-	<u>34,753</u>
<b>Total current receivables</b>	<b><u>46,055</u></b>	<b><u>45,455</u></b>

**18 Inventories**

	<b>2019/2020</b>	<b>2018/2019</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
Consumables stores	<u>794</u>	<u>1,085</u>
<b>Total inventories at lower of cost and net realizable value</b>	<b><u>794</u></b>	<b><u>1,085</u></b>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**19. (i) Property, plant and equipment**

	Land	Buildings	Plant and Equipment	Automobiles	Computer and Electronic Equipments	Office and Communication Equipment	Furniture and Fittings	Work in Progress	TOTAL
Cost	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000
At 30 June 2018	0	0	0	62,809	60,425	6,308	29,388	-	158,930
Additions				-	9,464	401	(38)	-	9,827
Disposals				(6,672)	(2,491)	(112)	487	-	(8,788)
Transfers/adjustments				-	(7,101)	-	-	-	(7,101)
Transfers/adjustments				0	-	-	-	-	-
<b>At 30 June 2019</b>	-	-	-	<b>56,137</b>	<b>60,297</b>	<b>6,597</b>	<b>29,837</b>	-	<b>152,868</b>
Additions	-	-	-	3,960	4,354	-	-	-	8,314
Disposals	-	-	-	(4,030)	-	-	-	-	(4,030)
Transfer/adjustments	-	2,510	-	-	(2,661)	(2,510)	-	-	(2,661)
<b>At 30 June 2020</b>	-	<b>2,510</b>	-	<b>56,067</b>	<b>61,990</b>	<b>4,087</b>	<b>29,837</b>	-	<b>154,491</b>
<b>Depreciation and impairment</b>									
<b>At 30 June 2018</b>	-	-	-	<b>(38,413)</b>	<b>(54,074)</b>	<b>(3,200)</b>	<b>(15,544)</b>	-	<b>(111,231)</b>
Depreciation	-	-	-	(11,343)	(14,699)	(492)	(3,367)	-	(29,901)
Disposals	-	-	-	6672	2491	112	38	-	9,313
Impairment	-	-	-	-	-	-	-	-	-
Transfer/adjustment	-	-	-	-	-	-	-	-	-
Transfer/adjustment	-	-	-	-	11,015	-	-	-	11,015
<b>At 30 June 2019</b>	-	-	-	<b>(43,084)</b>	<b>(55,267)</b>	<b>(3,580)</b>	<b>(18,873)</b>	-	<b>(120,804)</b>
Depreciation	-	(251)	-	(7,173)	(3,390)	(241)	(3,124)	-	(14,179)
Disposals	-	-	-	4,030	-	-	-	-	4,030
Impairment	-	-	-	-	-	-	-	-	-

Commodities Fund  
Annual Report and Financial Statements for the Year ended 30<sup>th</sup> June 2020

Transfer/adjustment	-	(489)	-	2,661	489	-	2,661
<b>At 30 June 2020</b>	<b>-</b>	<b>(740)</b>	<b>(46,227)</b>	<b>(55,996)</b>	<b>(3,332)</b>	<b>(21,997)</b>	<b>(128,292)</b>
<b>Net book values</b>							
<b>At 30 June 2020</b>	<b>-</b>	<b>1,770</b>	<b>9,840</b>	<b>5,994</b>	<b>755</b>	<b>7,840</b>	<b>26,199</b>
<b>At 30 June 2019</b>	<b>-</b>	<b>-</b>	<b>13,052</b>	<b>5,029</b>	<b>3,016</b>	<b>10,964</b>	<b>32,061</b>

Fully depreciated assets included in the above historical costs are as follows:

1. Motor vehicles Kshs.34,954,694
2. Office Equipment Kshs.2,659,038
3. ICT Equipment Kshs.50,448,119
4. Furniture and Fittings Kshs.2,740,526

**19. (ii) Intangible Assets -Software**

	2019/2020	2018/2019
	Kshs '000	Kshs '000
<b>Cost</b>		
<b>At the beginning of the Year</b>	<b>36,300</b>	<b>29,199</b>
Additions	613	7,101
<b>At end of year</b>	<b>36,913</b>	<b>36,300</b>
Transfer/ Adjustments	<u>2661</u>	-
<b>At end of the year</b>	<b>39,574</b>	<b>36,300</b>
<b>Amortization and Impairment</b>		
<b>At the beginning of the Year</b>	<b>(4,355)</b>	<b>(2,923)</b>
Adjustment of Overstated Amortization Expense in FY2017.18	-	1,247
Amortization	(2,935)	(2,679)
<b>At end of the year</b>	<b>(7,290)</b>	<b>(4,355)</b>
Impairment Loss	-	-
Transfer/ Adjustments	(2,661)	-
<b>At end of the year</b>	<b><u>(9,951)</u></b>	<b><u>(4,355)</u></b>
<b>NBV</b>	<b><u>29,623</u></b>	<b><u>31,945</u></b>

Assets amounting to Kshs. 2,261,336 included in the historical costs of intangibles are fully depreciated.

<b>20. Investments</b>	<b>2019/2020</b>	<b>2018/2019</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
<b>a) Investment in Treasury bills &amp; Bonds</b>		
<b>Financial Institution</b>		
CBK-12 Year GOK Infrastructure Bond	35,955	35,955
<b>b) Investment in Staff Mortgage Scheme</b>		
Housing Finance Corporation -Staff Mortgage Scheme	74,085	63,447
<b>c) Investment in Staff Car Loan Scheme</b>		
Family Bank -Staff Car Loan Scheme	<u>10,575</u>	<u>10,000</u>
<b>Grand total</b>	<b><u>120,615</u></b>	<b><u>109,402</u></b>

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

	2019/2020	2018/2019
	Kshs '000	Kshs '000
Trade payables	3,420	4,772
Payment received in advance	10,643	12,276
Employee Advance		
Third party payable	7,839	6,767
Loan Security Deposit	<u>2,489</u>	-
<b>Total trade and other payables</b>	<b><u>24,391</u></b>	<b><u>23,816</u></b>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

22. Capital Reserves	Sugar		Coffee	Revaluation Reserve	Total
	Revolving Fund Sugar	Revolving Fund Coffee	Revaluation Reserve		
	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Balance As At 01.07. 2019	13,554,512	1,675,206	3,421		15,233,139
Adjustments during the year	-	-	-	-	-
Balance As At 30 .06. 2020	<u>13,554,512</u>	<u>1,675,206</u>	<u>3,421</u>		<u>15,233,139</u>

23. Revenue Reserve	Kshs'000'
Balance As At 01.07. 2019	(12,871,708)
Restated items	-
Surplus for the period	(81,681)
<b>Revenue Reserve reported balance As At 30 .06. 2020</b>	<b><u>(12,953,389)</u></b>

**24. Financial Risk Management**

The Comfund's activities expose it to a variety of financial risks. Risk management is carried out by the finance function under policies approved by the Board of Trustees. The Finance function identifies, evaluates and hedges against the financial risk.

**(i) Credit Risk**

Credit risk is the risk that a borrower will default on any type of debt by failing to make required payments. The risk is primarily that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs. The loss may be complete or partial and can arise in a number of circumstances. The Comfund has no significant concentrations on credit risk. The Comfund has policies in place to ensure loans are given to farmers with an appropriate credit history. The credit department assesses the credit quality of each farmer, taking into account their financial position, past credit experience and other factors.

The carrying amount of loans recorded in the financial statements that represents the Comfund's maximum exposure to credit risk is as follows:

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	<b>Total Amount Kshs 000</b>	<b>Fully Performing Kshs 000</b>	<b>Past Due Kshs 000</b>	<b>Impaired Kshs 000</b>
<b>As at 30.06. 2020</b>				
Receivables from exchange transactions	20,948,751	935,153	79,165	19,934,433
Receivables from non-exchange transactions	46,055	6,055	40,000	-
Bank balance	1,125,807	1,125,807	-	-
<b>Total</b>	<b>22,120,613</b>	<b>2,067,015</b>	<b>119,165</b>	<b>19,934,433</b>
<b>As at 30. 06. 2019</b>				
Receivables from exchange transactions	20,455,658	628,819	708,526	19,118,313
Receivables from non-exchange transactions	46,005	6,055	40,000	-
Bank balance	1,369,530	1,369,530	-	-
<b>Total</b>	<b>21,871,243</b>	<b>2,004,404</b>	<b>748,526</b>	<b>19,118,313</b>

**(ii) Liquidity Risk Management**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the Comfund's management. It is unusual for a lending institution's maturities and interest rates of assets and liabilities to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

Ability to replace, at an acceptable cost, interest-bearing liabilities, as they mature are important factors in assessing the liquidity of the Comfund and its exposure to interest rates. The Comfund does not maintain cash resources to meet all liabilities as they fall due as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	<b>Less than 1 month Kshs 000</b>	<b>Between 1-3 months Kshs 000</b>	<b>Over 5 month Kshs 000</b>	<b>Total Kshs 000</b>
<b>As At 30.06.2020</b>				
Trade Payables & Other Payables	3,420		20,971	24,391
Current portion of borrowings	-	-	-	-
Provisions	-	-	-	-
Deferred income	-	-	-	-
Employee benefit obligations	-	-	-	-
<b>Total</b>	<b>3,420</b>	<b>-</b>	<b>20,971</b>	<b>24,391</b>
<b>As At 30.06.2019</b>				
Trade Payables & Other Payables	4772	12,276	6,768	23,817
Current portion of borrowings	-	-	-	-
Commissions payable	-	-	-	-
Deferred income	-	-	-	-
Employee benefit obligations	-	-	-	-
<b>Total</b>	<b>4,772</b>	<b>12,276</b>	<b>6,768</b>	<b>23,817</b>

**(iii) Market risk**

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an on-going basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The Comfund's Audit Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to The Comfund's exposure to market risks or the manner in which it manages and measures the risk.

**a) Interest rate risk**

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The company's interest rate risk arises from bank.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

deposits. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company's deposits.

### *Management of interest rate risk*

To manage the interest rate risk, management has endeavored to bank with institutions that offer favorable interest rates.

### *Capital Risk Management*

The objective of The Comfund's capital risk management is to safeguard the Board's ability to continue as a going concern. The Comfund capital structure comprises of the following funds:

	<b>2019-2020</b>		<b>2018-2019</b>
	<b>Kshs 000</b>		<b>Kshs 000</b>
Revaluation reserve	3,421		3,421
Revenue Reserve	(12,950,348)		(12,868,918)
Capital reserve	15,229,718		15,229,718
<b>Total funds</b>	<b>2,282,791</b>		<b>2,364,221</b>
Total borrowings	0		-
Less: Cash and bank balances	(1,125,807)		(1,369,530)
Net debt/(excess cash and cash equivalents)	1,125,807		1,369,530
<b>Gearing</b>	<b>100%</b>		<b>100%</b>

## 25. Related Party Balances

### (a) Nature of related party relationship

The Management regards a related party as a person or an authority with the ability to exert control individually, jointly or to exercise significant influence over the Management, or vice versa. Within the Comfund, Directors and members of key management are viewed as related parties while outside the Comfund, Ministry of Agriculture, Livestock, Fisheries and Co-operatives and Agriculture and Food Authority (AFA) was taken as related parties.

	<b>2019/2020</b>	<b>2018/2019</b>
	<b>Kshs 000</b>	<b>Kshs 000</b>
<b>Transactions with related Parties</b>		
<b>a) Sales to related Parties</b>		
Sales of goods	-	-
Sales of services	-	-
<b>Total</b>	<b>-</b>	<b>-</b>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

<b>b)Grants from the Government</b>		
Grants from the National Govt.	-	-
Grants from County Government	-	-
Donations in kind	-	-
<b>Total</b>	<b>-</b>	<b>-</b>
<b>c)Expenses incurred on behalf of related party</b>		
Payments of salaries and wages for AFA employees	0	0
Payments for goods and Services	-	-
<b>Total</b>	<b>0</b>	<b>0</b>
<b>d)Key Management Compensation</b>		
Directors' emoluments	17,738	27,050
Compensation to the CEO	6,212	5,948
Compensation to Key Management	28,077	26,224
<b>Total</b>	<b>52,027</b>	<b>59,222</b>

**b) Key management remuneration**

Transactions with related parties are summarised as follows:

The aggregate remuneration to directors and key management including allowances, salaries and benefits were as follows:

	<b>2019/2020</b>	<b>2018/2019</b>
	<b><u>Kshs 000</u></b>	<b><u>Kshs 000</u></b>
Trustees Emolument	17,738	27,050
Compensation to Managing Trustee	6,212	5,948
Key Management compensation	<u>28,077</u>	<u>26,224</u>
	<b><u>52,027</u></b>	<b><u>59,222</u></b>

The sugar loan portfolio managed by Comfund was inherited from AFA and the hand over process is not fully concluded.

**c) Due from related parties**

	<b>2019/2020</b>	<b>2018/2019</b>
	<b><u>Kshs 000</u></b>	<b><u>Kshs 000</u></b>
Due from Ministry of Agriculture, Livestock, Fisheries & Co-operatives	<u>40,000</u>	<u>40,000</u>
	<b><u>40,000</u></b>	<b><u>40,000</u></b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

The Ministry of Agriculture, Livestock, Fisheries and Co-operatives was on its request advanced amount in 2017 but has not paid back.

### 26 Contingent Liabilities

<b>Contingent liabilities</b>	<b>2019/2020</b>	<b>2018/2019</b>
	<b>Kshs 000</b>	<b>Kshs 000</b>
One court case against The Comfund	<u>18,998</u>	<u>4,300</u>
<b>Total</b>	<b><u>18,998</u></b>	<b><u>4,300</u></b>

The Comfund has litigation against it which involves a spousal consent dispute on a property secured against a loan with the exposure estimated at around **Kenya shillings Eighteen Million Nine Hundred Ninety Eight Thousand (Kshs 18,998,000)**. However, management is of opinion that the case will be judged in its favour hence no need for provision in the financial statements.

### 26. Material Uncertainty

The Comfund has cumulative deficit totalling to Kshs. 12,947,802,000 occasioned by huge provisions for non-performing loans. Cumulative Provisions charged in the financial statements stood at Kshs. Kshs.19,965,625,000. Majority of the non-performing loans are held in sugar sector and more so by government owned sugar millers and out grower institutions. The sugar loan portfolio was grossly under provisioned when it was handed over to Comfund which necessitated enhancement of provisions to adequately cover the non-performing loans. The issue of non-performing debts will be addressed by privatization of government owned sugar millers a matter under government consideration.

### 27. Capital Commitments

<b>Capital commitments</b>	<b>2019/2020</b>	<b>2018/2019</b>
	<b>Kshs</b>	<b>Kshs</b>
	<b>000</b>	<b>000</b>
Authorised for	-	-
Authorised and contracted for	<u>-</u>	<u>-</u>
<b>Total</b>	<b><u>0</u></b>	<b><u>-</u></b>

At the end of the year The Comfund did not commit any funds.

### 28. Events after the reporting period

There were no material adjusting and non- adjusting events after the reporting period.

### 29. Ultimate and Holding Entity

Commodities Fund is a State Corporation under the Ministry of Agriculture, Livestock, Fisheries and Irrigation. Its ultimate parent is the Government of Kenya.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**30. Currency**

The financial statements are presented in Kenya Shillings (Kshs).

**16. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

<b>Reference No. on the external audit Report</b>	<b>Issue / Observations from Auditor</b>	<b>Management comments</b>	<b>Focal Point Person to resolve the issue (Name and designation)</b>	<b>Status: (Resolved / Not Resolved)</b>	<b>Timeframe: (Put a date when you expect the issue to be resolved)</b>
<b>1. Loans and Related Issues</b>	<p><b>1.1: Variance Between Loans Repaid and Loans Received</b></p> <p>The statement of financial position reflects current receivables from exchange transactions- loans and advances of Kshs. 343,020,000 (2018:829,483,000) and long term receivables from exchange receivables- loans and advances of Kshs.423,113,000</p>	<p>Management reviewed the report to establish the genesis of the purported Kshs. 1,406,821,636.38 difference between the repaid and receipted loans noted the difference was occurring as a result of the auditor comparing repayments for 13 years against receipted amount for three years.</p>	Managing Trustee	Resolved	Resolved

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point Person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>(2018:Kshs7,854,811,000) as disclosed under Note 16(iii) and 16 (iv) respectively. However, an analysis of extracts of loans repaid schedules reflects total loan repayments of Kshs.3, 410,147,914.29 while total bank receipts of loan repayments by farmers amounted to Kshs. 2,003,326,274.91, resulting to a difference of Kshs.1,406,821,636.38. The loan movement which is largely attributable to provision for loans and advances during the year</p>	<p>There would have been no difference if the data being compared related to same period. Detailed and elaborated documentation was submitted to the office of the Auditor General and appeal made to the office to re-look the matter.</p> <p>Additionally, Management were able to clarify that</p>			

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point Person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>amounted to Kshs.9,113,571,000 against total opening loan balance of Kshs. 8,684,294,000.</p> <p>Further, the bank statements did not include unique loan numbers or identifier against repayments receipts. It is not possible to corroborate loan repayments in the system with the loanees' banking making it difficult for reconciliation to be done.</p> <p>In the circumstance, it has not been possible to determine the loan and advances issued and</p>	<p>although loan provisions was the main determinant of loan movement during the year, two other variables namely loan disbursement and loan repayment contributed to the movement during the year. Analysis was provided to show how provision of Kshs.9,113.571,000 was apportioned between principal loan and outstanding interest. It was therefore not correct to say the provision</p>			

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point Person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	repaid on basis of provisions made during the year.	<p>charged on loans during the year exceeded the opening loan balance.</p> <p>Further, management have adopted phone number of the borrower as the unique identifier to appear on the bank statements.</p>			

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation )	Status: (Resolved / Not Resolved )	Timeframe: (Put a date when you expect the issue to be resolved)
	<p><b>1.2:Long Outstanding Reconciliation Loan Balances</b></p> <p>The statement of financial position reflects current and long term receivables from exchange transactions-loans and advances of Kshs.343,020,000 and Kshs.423,113,000 respectively and as disclosed under Note (iii) and 16(iv). An extract of amount received in the system and bank receipts reflects unidentified</p>	<p>Management acknowledges the Fund held unidentified receipts totaling to Kshs. 5,194,567 whose support document were submitted to the office of Auditor General. The figure of Kshs. 13,463,098.91 captured in the report and is not in the attached financial statements. The figure of Kshs .5,194,567 is part of Payments received in advance figure of Kshs. 12,276,000 reported under note 21 to our financial statements. The unidentified repayments have been on decline due to steps taken by the management to</p>	Credit and Finance Managers	Not Resolved	June 2021

	<p>receipts amounting to Kshs. 13,463,098.91 which dates back to 2017 when the management migrated to the new system. However, management has not investigated what the balances relate to or made recommendations for clearance from books. No explanations was provided for the non-reconciliation and identification of farmers' loan repayment.</p>	<p>resolve the problem. Management is in the process of identifying the Kshs. 5,194,567 and we are optimistic of resolving the problem once unique loan numbers are fully adopted in repayment receipts.</p> <p>Appeal was made to the Auditor General to quote the correct figure of Kshs. 5,194,567 in the audit report.</p>			
	<p><b>1.3: Freezing of Interest on Loans</b></p> <p>The statement of financial position reflects current and long-term receivables from exchange transactions – Loans and advances of</p>				

	<p>Kshs. 343,020,000 and Kshs. 423,113,000 respectively and as disclosed under Note 16 (iii) and 16 (iv). Review of extracted loans data revealed that the fund had frozen interest on 62,731 loans with outstanding balance of Kshs. 261,053,043 and interest balance of Kshs. 141,997,009. The Fund does not have proper guidelines or policy to regulate the freezing of interests.</p> <p>The loans included 63 loans on coffee portfolio with a total balance of Kshs. 91,451,530 issued during the year, out of which 34 loans with a loan balance of Kshs. 59,593,738 had the interests frozen.</p>	<p>During a meeting held on 16<sup>th</sup> October 2016 Management approved freezing of interest on loans. At that time the Fund did not have a Board of Trustees in place. This position was further affirmed when the Board of Trustees were reviewing the provisioning of the loans in the Credit Policy and resolved that interest accruing to be suspended five years after the due date. The data extracted that had outstanding balance of Kshs. 261,053,042.69 and interest balance of Kshs. 141,997,009.27 all totaling Kshs. 403,050,051.96 were issued between the year 2007 to 2014.</p> <p>The Coffee loans issued during the financial year 2018/2019 amounted to Kshs. 122,514,950.00 and the outstanding loan balance currently stands at Kshs. 68,487,862.57. The earliest freeze date was 3-Dec-23 and the latest freeze date was 26-Jun-29. The interest on these loans were not frozen.</p>	Credit and ICT Managers	Resolved	Resolved
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		<p>There were no inconsistencies between the application date and loan disbursement date. The Fund procured the system in the in mid-2017. The application date for purposes of clarity refers to the posting date in the system while the disbursement date refers to when the funds were disbursed to the client. As mentioned above loans were issued since the year 2007. The system was acquired in the year 2017 and therefore the data had to be migrated from the old system to the new system. The date it was migrated/posted to the new system is considered the "application date". The disbursement/issue date is the date the funds were disbursed to the client. An example is LN_00123856 was disbursed/issued on 5-Jun-2007 but was posted into the Credit system on 9 Oct 2017.</p>			
	<b>1.4 Loan with balances but</b>	<p>Management clarified that the said loans are still outstanding and not cleared as said. The said loans</p>	Credit Manager	Resolved	Resolved

	<p><b>Reflected cleared in the system</b></p> <p>The statement of financial position reflects current and long-term receivables from exchange transactions –</p> <p>Loans and advances of Kshs. 343,020,000 and Kshs. 423,113,000 respectively and as disclosed under Note 16 (iii) and 16 (iv). The above balances exclude the principle loan balance amounting to Kshs. 595,062,000 which has been cleared. The above loan balance had accumulated interest of Kshs. 2,203,538,506 out of which only Kshs. 7,417,810 had been repaid resulting to Kshs. 2,196,120,696.52 cleared without</p>	<p>were captured in the financial statements as at 30<sup>th</sup> June 2019. At the point at which the data was extracted there was an anomaly in the system which required technical support from the system developer.</p> <p>Document were provided to the office of Auditor General to demonstrate the loans are outstanding and are being serviced by the borrowers.</p>			
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	<p>supporting documents.</p> <p>No explanation was provided on how the accumulated interest was cleared and the corresponding repayments</p>				
	<p><b>1.5 Amortization of Loans – (ICT)</b></p> <p>The statement of financial position reflects current and long term receivables from exchange transactions- loans and advances of Kshs 343,020,000 and Kshs 423,113,000 respectively and as disclosed under note 16(iii) and 16(iv). The fund’s credit policy manual provides that all loans disbursed, repayment would be on reducing</p>	<p>The credit policy provides for <b>reducing balance interest</b> computation which indeed means interest is computed based on the reducing principal. This ensures the interest burden is lesser as the principal is reduced. What was observed is the <b>repayment methods</b> which carries almost similar names but denote the payment method such equal monthly instalment which is called amortised. Amortised is simply a method that ensures that customer’s payment schedule consists of equal monthly instalments based on reducing balance. The reducing balance payment method here referred to instalments which are not equal but still on reducing balance. No policy was then violated it’s a question of naming. Finally it’s impossible to amortise using straight-line method</p>	<p>Credit and ICT Manager</p>	<p>Resolved</p>	<p>Resolved</p>

	<p>balance method.</p> <p>However, it was observed that the management treated loans differently with some loan balances being amortized contrary to the provisions of the credit policy.</p> <p>Approved loans totalling to Kshs. 1,769,626,283 with balances totalling to Kshs. 967,028,087 were amortized using the straight line method during the loan period contrary to the credit policy manual.</p> <p>Under the circumstances, the accuracy and completeness of the account balances of Kshs. 343,020,000 reflected in the statement of financial position could not be confirmed.</p>	<p>because amortisation schedule primary uses reducing balance interest calculation method. Confirmation using active and cleared farmers statement will confirm that all calculations are based on reducing balance interest method. Interest is therefore computed in compliance with the policy.</p>			
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<p><b>2.0 Write-off of Receivables from Non-Exchange Transactions</b></p>	<p>As disclosed under Note 17 to the financial statements, the statement of financial position reflects an balance of Kshs. 45,455,000 under receivables from non-exchange transactions which includes amount of Kshs.34,753,000 indicated as funds held by intermediaries an amount that was fully provided for during the year. Examination of records held by the Fund revealed that these loans were disbursed to farmers through intermediaries. In addition, it is not clear how the provision was made and how the loans will be collected. Further, management made provisions on</p>	<p><i>Management has clarified the amount purported to have been written –off are still intact in Commodities Fund Books. Secondly, provision of the made was justified since the amounting has been outstanding for more than ten year. Additionally provisioning of the same was recommended by the office of Auditor general.</i></p>	<p>Credit and Finance Manager</p>	<p>Resolved</p>	<p>Resolved</p>
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	<p>receivables from non-exchange contracts of Kshs.34,753,000 without any justifiable reason. The validity of the provisions could not therefore be confirmed.</p>				
<b>3.0 Misclassification of Expenditure</b>	<p>As disclosed under Note 9 to the financial statements, the statement of financial performance reflects an amount of Kshs. 114,470,000 in respect of employee costs. A review of the account revealed that the above balance includes travel, accommodation, subsistence and other allowances of Kshs.25,135,049. The above expenses are operational expense and do not</p>	<p><i>The financial statement under note 9 reflects an amount of Kshs.89,297,000 and not Kshs.114,432,000 as quoted in the report. Management opted to classify travel and accommodation allowances cost of Kshs. 25,135,049 under the general expenses as recommended by the Auditor General. Originally the Amount was</i></p>	Finance Manager	Resolved	Resolved

	<p>relate to employee costs.</p> <p>In the circumstances, the employee costs have been overstated by Kshs.25,135,04.</p> <p>While the general expenditure has been reduced by a similar margin.</p>	<p><i>classified under employee cost as required by the IPSAS reporting template.</i></p>			
<p><b>4.0 Revenue Shortfall and Unauthorized Expenditure</b></p>	<p>The statement of comparison of budget and actual amounts reflects approved receipts budget and actual on comparable basis amount of Kshs. 853,753,000 and Kshs.549,870,000, respectively, resulting to shortfall in receipts of Kshs. 303,883,000 or 36%. Further, the Fund's approved expenditure budget was Kshs. 757,577,000 while</p>	<p>Management acknowledged and explained the revenue budget was not achieved as a result of not getting Kshs. 126 million from the parent Ministry meant for ICPP project. Secondly, both coffee and sugar sectors continued to perform poorly and were partly impacted by Covid-19. On other hand recurrent expenditures were</p>	<p>Finance Manager</p>	<p>Resolved</p>	<p>Resolved</p>

	<p>the actual expenditure was Kshs.9,372,289,000 , resulting to over-expenditure of Kshs.8,614,712,000 or 1137%. There was no evidence that the management sought for any authorisation to overspend excessively over an above the approved budget. The underfunding and underperformance affected the planned activities and impacted negatively on service delivery to the public.</p>	<p>within the approved budget but overly the budget was exceeded due to high provision for non-performing loan. The provisioning policy was revised to comply with requirement of IPSAS 41. Consequently, the provisions charged during the year was Kshs.9,113 million which led to over expenditure.</p>			
<b>REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES</b>					
<b>1.0 Legal case on Kibos Sugar &amp; Allied</b>	The receivables from exchange transactions – loans, advances and interests’ balances	The court case that was on-going was ruled in favour of Kibos Sugar & Allied Industries.	Managing Trustee/Legal Manager	Not Resolved	Not Resolved

<p><b>Industries – Credit</b></p>	<p>totaling Kshs. 787,183,000 as at 30<sup>th</sup> June, 2019 includes loan advances amounting to Kshs. 133,972,375 advanced to Kibos Sugar &amp; Allied Industries as detailed below:-</p> <ul style="list-style-type: none"> <li>• Kibos Sugar &amp; Allied industries LN_001591 31 Kshs. 53,588,950</li> <li>• Kibos Sugar &amp; Allied industries LN_001591 32 Kshs. 40,191,712</li> <li>• Kibos Sugar &amp; Allied industries LN_001591 33</li> </ul>	<p>The Court noted the loan under questions was not issued by Commodities Fund and has no claim over repayment.</p>			
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	Kshs. 40,191,712				
	<p>It was noted that the company has never repaid any of the stated loans. Further the company sued the Commodities Fund and the Agriculture and Food Authority in the High Court at Kisumu vide petition no. 19 of 2019, in which it denied receiving any money by the Fund. However, the petitioner acknowledged that the loans were instead advanced by the Kenya Sugar Board and not Commodities Fund. It is not clear how the loan will be paid and why the company resulted to legal action. Further no accrued interest has been made on the advanced amount.</p>				

	In the circumstances the Fund may not realize the amount classified as loans.				
<b>2.0 Irregular Procurement of General Insurance Services</b>	<p>The procurement of provision of general insurance services was done vide tender no. COMFUND/T/02/2018/19 dated 12 March, 2019, and thirteen (13) bidders responded, the evaluation was only based on two parameters; premium and excess on the quoted amount. The lowest bidder as per the evaluation was awarded the contract for a sum of Kshs.861,323. However, the only criteria set by the procurement department was that, the evaluation and final ranking of</p>	<p>This Tender was evaluated based on firms meeting the mandatory (eligibility) requirements as set out in the Tender Document before being considered for technical evaluation on their excess and premiums quoted by each bidder which were assigned 30% and 70% weights respectively. It should be noted that this is a regulated industry where firms are required to maintain certain minimum thresholds before their licenses are renewed and allowed to operate. Management have committed to improvement in future tenders.</p>	Procurement Manager	Resolved	Resolved

	<p>the bid will take into account the scope of the cover in relation to the premium which shall have a weight of 70% and excess which shall have a weight of 30%. The cost of items not priced shall be assumed to be included in other costing the proposal. The award will be made to the lowest evaluated bidder. The contract will be for a period of two years and subject to annual satisfactory performance review. The Procurement Act states that evaluation should be for both technical and financial. It was noted that only one evaluation was done which was a financial</p>				
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	<p>evaluation, implying that the technical evaluation was not done. It was not possible to ascertain the capability of the winning firm without assessing its technical capability.</p> <p>In the circumstances, it is not possible to ascertain the capacity of a bidder by the premiums and excess without doing technical evaluation.</p> <p>Consequently, the management contradicts Section 46.4 of the Public Procurement and Disposals, Act 2015.</p>				
<p><b>3.0 Employee Costs-Staff Establishment Shortfall</b></p>	<p>The Fund had staff of forty four (44) employees against staff establishment of one hundred and fifty four (154)</p>	<p>The Fund was granted authority to employ thirteen additional employees thus improving staffing</p>	<p>Managing Trustee and Board</p>	<p>Resolved</p>	<p>Resolved</p>

	during the year under review resulting in a shortfall of staff totalling one hundred and ten (110) translating to 71%. The management had serious challenges of staffing especially in procurement, transport credit control units.	capacity in credit section.			
<b>EFFECTIVENESS OF INTERENAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE</b>					
<b>1.0 Functionality of the Board of Trustees</b>	The Crops Act, No.13 of 2013, which created the Fund did adequately expound the mandate of the Fund's Board of Trustees as well as its powers and responsibilities. The Fund is not established as a body corporate having perpetual succession and a common seal and	<b>Functionality of the Board of Trustees</b>  Section 9 and 10 of the Crops Act no 16 of 2013 was clear as to the Mandate and sources of the Fund. Now while the Act did not expressly state what the Board shall be expected to do in verbatim. It is prudent to Note that Trustees act as Managers of the Fund and make decisions on investments, disbursement, utilization and accounting of the Fund as if they	Managing Trustee/Leg al Manager	Resolved	Resolved

	<p>may not, in its corporate name, sue and be sued, which hinders its operations. Consequently, the Fund’s Board of Trustees ability to work independently and effectively in the absence of clear laws on its mandate, powers and responsibilities is doubtful.</p>	<p>were the owners BUT do so on behalf of the owner from a prudent perspective, This is of course as per guidelines of government and various legislations guiding the agricultural sector and even the Legislations on Trust which are very explicit.</p> <p><b>The Body Corporate status of the Fund</b></p> <p>The Crops Act was not express as to the Body corporate status of the Commodities Fund. That said the operations as to its mandate become hampered as held by the Auditor general. Though so, the Laws of Trust are clear again as to the status of the Trustees making it a personal and wholesome responsibility in the Management, disbursement and collection including utilization of the Funds therein.</p> <p>Management has however since the turn of 2014 been pursuing amendment of the Crops Act to include the vital</p>	<p>Managing Trustee/ Legal Manger</p>	<p>Not Resolved</p>	<p>Not Resolved</p>
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		<p>omission. Meetings with select committees of parliament, the senate, council of governors and even and including the AG and the Solicitor General have taken place with a view of enlisting aid in ensuring amendments happen. The efforts are still on going with the hope that the turn of 2020 will see the successful adoption of our proposed amendments.</p>			
<p><b>2.0 Weakness of the Internal Controls</b></p>	<p><b>2.1 Missing Numbers In Loans Issues (ICT)</b></p> <p>The fund operated through a Microsoft Navision System in the daily operations.</p> <p>However, examination of the records on the loan issued revealed a series of loan numbers (LN) _00000001 to LN_00159265.</p> <p>However, it was noted that there</p>	<p>The management did not get sufficient time to provide documentary evidence on the gaps in the loan series. This is because the data obtained by auditors were only loans number series for the approved loans list. The dataset or file obtained by the auditors were limited to the approved loan list because it became extremely difficult to download the entire loans register due limitations of server retrieval speeds to entire file. A special report was created</p>	ICT Manager	Resolved	Resolved

	<p>were 17,676 gaps in the issuance of loans which could not be accounted for. The gaps in the loan series were neither invalidated nor cancelled in the system. No documentary evidence was provided to show how the missing gaps in the loans issuance arose. The gaps in the system could have led to issuance of some loans and deleting of the same loan amounts without the trail of repayments.</p>	<p>to be able to retrieve the cancelled/rejected. It is noted that loans were created in the system through migration and upload from the old system. Two upload files with 8666 and 10431 number of loan accounts failed during migration/upload and those loan numbers were voided by flagging rejected and those accounts would not be available for use.</p>			
	<p><b>2.2 Issuance of Multiple Account Numbers to Loan Account Holders- (ICT)</b> Examination of the farmers' loans accounts and identification numbers revealed</p>	<p>The Fund first started lending through intermediary lending model. The accounts were grouped per each intermediary as each intermediary submitted their list of farmers they</p>	<p>ICT Manager</p>	<p>Resolved</p>	<p>Resolved</p>

	<p>that commodities fund was issuing different account numbers to the same farmer. A sample of forty-seven loan accounts had same identification numbers but different accounts. No explanation was provided for issuance of different account numbers to the same farmer.</p>	<p>have independently on lent to. These loans were jointly secured through tripartite agreement. This means farmers accounts submitted by each intermediary were independent of those from another intermediary. It turns out that some farmers have farms in more than one intermediary or neighboring societies. Accounts issued through commodities direct lending are indeed unique and cannot allow creation of an account whose ID already exist</p>			
	<p><b>2.3 Missing Loan Records –(ICT)</b> An analysis of the Navision System(Loan Management</p>	<p>Keenly looking at the gaps identified they were made during the testing period before the go-live. Microsoft Navision provides</p>	<p>ICT Manager</p>	<p>Resolved</p>	<p>Resolved</p>

	<p>System) revealed missing loan records totalling 30,027 which might have been deleted from the system without explanation. These series were system generated an unique for each loan issued. The analysi of these numbers revealed gaps in numbering. In addition, no record was provided to show how much these loan records represented since they were deleted completely from the system. No explanation was provided for missing loan records which could translate into loss of funds. In the circumstances there was no audit trail of the number of loans</p>	<p>for activation and de-activation of change log entries. The developers were the one who deactivated during testing period before 2017 July go-live period. This numbers do not represent loan numbers in itself. During the period under audit no gaps were experienced</p>			
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	issued to the farmers.				
<b>3.0 Ineffective Debt Recovery</b>	<p>The statement of financial performance reflects general expenses totaling to Kshs. 9,197,022,000 and which includes provision for bad debts of Kshs. 9,113,574,000 as disclosed under Note 13 to the financial statements.</p> <p>Although the loan balances have been outstanding for a long time, and the provision was made as per the Fund's policy, no meaningful effort appears to have been made towards full recovery of the loan balances.</p>	<p>It is true that the Fund made provisions for bad and doubtful debts amounting to Kshs. 9,113,574,000 in the year ended 30<sup>th</sup> June 2019. While it is true the provision was too material to be provided for at once, this was informed by the fact the loans have been defaulted for long and the Fund would be postponing a problem by not providing. The provisions were in line with the requirements of IPSAS 41-Financial Instruments, which requires public sector institutions to apply single forward-looking expected credit loss for financial instruments subject to impairment testing. Management continues to push for loan repayment as if no provision has been made. Towards collection effort, the Fund has listed defaulters, recruited additional loan officers and is also trying to resolve the issue of corporate status which has been the greatest hindrance to loan recovery.</p>	Credit Manager	Not Resolved	Not Resolved

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**Nancy C. Cheruiyot, FCCA**  
**Managing Trustee**

Date: 22/09/21.....

### 17. Appendix 1: PROJECTS IMPLEMENTED BY THE COMFUND Projects

Projects implemented and funded by the Comfund

Project title	Project Number	Donor	Period/Duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
	1	N/A	1 Year	N/A	N/A	N/A
	2	N/A	1 Year	N/A	N/A	N/A

### Status of Projects completion

(Summarise the status of project completion at the end of each quarter, ie total costs incurred, stage which the project is etc)

Project	Total project Cost Kshs 000'	Total expended to date Kshs 000'	Completion % to date	Budget Kshs 000'	Actual Kshs 000'	Sources of funds
N/A	N/A	N/A	N/A	N/A	N/A	N/A

### 18. Appendix 11: INTER-ENTITY TRANSFERS

	FY 17/18	Bank Statement Date	Amount(Kshs)	Indicate the FY to which the amounts relate
A	Recurrent Grants	N/A	N/A	N/A
B	Development Grants	N/A	N/A	N/A
C	Direct Payments	N/A	N/A	N/A
D	Donor Receipts	N/A	N/A	N/A