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KENYA NATIONAL AUDIT OFFICE

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
KENYA SUGAR BOARD

FOR THE PERIOD ENDED
31 JULY 2014

Paper Laid
By Hon. A. Sule, MP (Lom)
on Tuesday, 21.04.2015.
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REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

REPORT

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THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
KENYA SUGAR BOARD**

**FOR THE PERIOD ENDED
31 JULY 2014**



KENYA SUGAR BOARD

KENYA NATIONAL AUDIT OFFICE
P. O. Box 30084 - 00100, NAIROBI.

25 FEB 2015

RECEIVED

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THIRTEEN MONTHS ENDED 31ST JULY 2014**

**KENYA SUGAR BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE THIRTEEN MONTHS ENDED 31ST JULY 2014**

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

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I. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

Kenya Sugar Board was established under section 3 of Sugar Act 2001 and is domiciled in Kenya. The Board is headed by the Chief Executive officer and reports to the Board of Directors.

(b) Principal Activities

The principal activities of the Board are to regulate, develop and promote the Sugar Industry.

(c) Key Management

The day to day running of the Board is carried out by the Board of Directors and Management team.

(d) Fiduciary Management

The key management personnel who held office during the financial period ended 31st July 2014 and who had direct fiduciary responsibility were:

- | | |
|---------------------------------|-----------------|
| 1. Chief Executive Officer | - Rosemary Mkok |
| 2. Company Secretary | - Andrew Osodo |
| 3. Head of Finance | - Silas Nyaga |
| 4. Sugar Fund Portfolio Manager | - Solomon Odera |

(e) Fiduciary Oversight Arrangements

Oversight is carried out by the following:

1. Finance and establishment committee

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2. SDF Committee
3. Audit committee
4. Management Tender committee

(f) Entity Headquarters

P.O Box 51500 – 00200
Sukari Plaza
Off. Waiyaki Way
Nairobi, KENYA

(g) Entity Contacts

Telephone (254) 020 8018750-3, 0722203127/8

E-mail: info@kenyasugar.co.ke

Website: www.kenyasugar.co.ke

(h) Entity Bankers

- | | |
|---|---|
| <ol style="list-style-type: none">1. National Bank of Kenya, Hill Branch, P.O. Box 45219-00100, Nairobi. | <ol style="list-style-type: none">2. Standard Chartered Bank, Westlands Branch, P.O. Box 14438-00800, |
| <ol style="list-style-type: none">3. Barclays Bank of Kenya, Westlands Branch, P.O. Box 14403-00800, Nairobi. | <ol style="list-style-type: none">4. Co-operative Bank of Kenya, Co-op Bank House, P.O. Box 67881-00200, Nairobi. |

(i) Independent Auditors

Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084
GPO 00100
Nairobi, Kenya

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(j) Principal Legal Adviser

1. Kemboy & Co. Advocates
P.O. Box 19500-00100
Nairobi.







2. Waweru Gatonye & Co. Advocates
P.O. Box 55207 – 00200;
Nairobi.

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II. THE BOARD OF DIRECTORS

| NAME OF STATE CORPORATION | FULL NAMES OF CHAIRMAN, CEO AND BOARD OF DIRECTORS | DESIGNATION | GENDER | AGE | COUNTY OF BIRTH | DATE OF APPOINTMENT | DATE OF EXPIRY | ACADEMIC & PROFESSIONAL QUALIFICATIONS | EXPERIENCE | CONTRACT PERIOD | TERMS SERV |
|---------------------------|--|-------------|--------|-----|-----------------|---------------------|----------------|--|------------|-----------------|------------|
| Kenya Sugar Board |  Hon. Kiptorus Arap Kirior | Chairman | Male | 68 | Kericho | 27/3/2012 | 27/3/2015 | EACE, Trained Teacher | 52 | 3 | 1 |
| Kenya Sugar Board |  Ms. Rosemary Mkok | CEO | Female | 52 | Busia | 15/12/2008 | 15/12/2014 | LLB, Post Grad Dip. In legal Studies, CPS (K), MBA | 28 | 3 | 2 |
| Kenya Sugar Board |  Mr. Billy Wanjala Mukanya | Director | Male | 65 | Bungoma | 1/3/2012 | 1/3/2015 | BCOM CPA (K) CPS (K) | 39 | 3 | 2 |
| Kenya Sugar Board |  Eng. Mukhwana Mohammed, HSC | Director | Male | 62 | Kakamega | 1/3/2012 | 1/3/2015 | BSC (Civil Engineering) MSC (Airport Planning) | 36 | 3 | 2 |
| Kenya Sugar Board |  Hon. Saulo Wanambisi Busolo | Director | Male | 55 | Bungoma | 1/3/2012 | 1/3/2015 | M.A (Political Science) & BA (Public Administration) | 31 | 3 | 4 |

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| | | | | | | | | | | | |
|-------------------|---|---|--------|----|----------|-----------|----------|--|----|---|---|
| Kenya Sugar Board |  Mr. Ewing Makhakha Mwombe | Director | Male | 53 | Kakamega | 1/3/2013 | 1/3/2015 | A-Level | 29 | 3 | 2 |
| Kenya Sugar Board |  Mr. Himesh Patel | Director | Male | 44 | Kakamega | 1/3/2013 | 1/3/2015 | Higher Secondary Education, India | 24 | 3 | 4 |
| Kenya Sugar Board |  Mr. Nicholas Oricho | Director | Male | 43 | Kisumu | 1/3/2013 | 1/3/2015 | Masters Degree in Business Administration, BED Arts | 20 | 3 | 2 |
| Kenya Sugar Board |  Mr. Jaswant Rai, MBS | Director | Male | | | 27/8/2012 | 1/3/2015 | | | 3 | 1 |
| Kenya Sugar Board |  Ms. Anne Onyango Akinyi, MBS | Director Ag. Agriculture Secretary | Female | 54 | Nairobi | 1/3/2012 | 1/3/2015 | M.SC Agricultural and Rural Development B.SC General Agriculture | 32 | 3 | 1 |
| Kenya Sugar Board |  Ms. Alice W. Gichu | Director Rep. PS, State Department of Agriculture | Female | 56 | | 22/8/2013 | 1/3/2015 | BCOM (Business Administration Honors) | | 3 | 1 |

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| | | | | | | | | | | | |
|-------------------|--|-------------------------------------|--------|--|--|-----------|----------|--|----|---|---|
| Kenya Sugar Board |  Ms. Anne Kagure Mugo, MBS | Director Rep. PS, National Treasury | Female | | | 27/7/2012 | 1/3/2015 | MBA (Finance B Com (First Class Honors) member Institute of Directors (Kenya), Chevening Scholars Association of Kenya (CHAK), Chartered Insurance Institute (London), African Association of Public Administrators and Managers (AAPAM) | 25 | 3 | 1 |
|-------------------|--|-------------------------------------|--------|--|--|-----------|----------|--|----|---|---|

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III. MANAGEMENT TEAM

| Name and key profession/academic qualifications | Main area of responsibility |
|--|--------------------------------|
|  <p><i>Rosemary Mkok, MBS</i> Rosemary is a lawyer by profession and holds a Bachelor of Laws (LLB) degree from the University of Nairobi and an MBA Degree from the Eastern and Southern African Management Institute (ESAMI). She is a Certified Public Secretary (CPS-K) and holds a Post graduate Diploma in Legal studies from the Kenya School of Law</p> | <p>Chief Executive officer</p> |
|  <p><i>Andrew Osodo</i> Andrew holds a Bachelor of Law Degree from the University of Nairobi, and MBA Degree in Strategic Management. He is a member of the Institute of Certified Public Secretaries of Kenya (ICPSK)</p> | <p>Company Secretary</p> |
|  <p><i>Peter Lukoye</i> Peter holds a Bachelor of Arts Degree in Sociology and Economics from the University of Nairobi.</p> | <p>Human Resources Manager</p> |
|  <p><i>Patricia Njeru</i> Patricia holds a Master of Economics in Agricultural Economics. She holds a Diploma in</p> | <p>Head Planning</p> |

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| | |
|--|--|
| <p>resource Economics from University of New England New South Wales, Australia. She is also a graduate of Bachelor of Science in Agricultural Economics from the Egerton University, Njoro.</p> | |
|  <p><i>Solomon Odera</i></p> <p>Solomon holds a BSc. Business Administration, major in Accounting & Financial Management from Unites States International University (USIU). He is a member of the Kenya Institute of Management (KIM).</p> | <p>Sugar Development Portfolio Manager</p> |
|  <p><i>Fredrick Kebeney</i></p> <p>Fredrick is a trained Agriculturalist with a Bachelor of Science Degree in Agriculture and specialized in sugarcane agronomy.</p> | <p>Head of Agriculture</p> |
|  <p><i>Nahason Aseka</i></p> <p>Nahason holds an MSC engineering degree. He also holds an MBA degree and BSC in Chemistry.</p> | <p>Head of Sugar Technology</p> |
|  <p><i>Emma Malinda</i></p> <p>Emma holds an MBA from East and Southern Management Institute (ESAMI) & Maastricht Institute (Netherlands). She is a member of the Institute of Certified Public Accounts of Kenya</p> | <p>Head of Internal Audit</p> |

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| | |
|--|----------------------------|
| (ICPAK) | |
|  <p><i>Silas Nyaga</i> Silas holds an MBA degree and a Bachelor of Commerce Degree from Kenyatta University. He is also a certified Public Accountant and a member of ICPAK</p> | <p>AG. Head of Finance</p> |
|  <p><i>Denis Gaya</i> Denis holds an MBA in strategic management and a BSC degree in Information Technology.</p> | <p>ICT Manager</p> |
| <p>Note: The CEO and the Company Secretary will feature both under the 'Board' and 'Management'.</p> | |

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I. CHAIRMAN'S STATEMENT

MESSAGE FROM THE CHAIRMAN

The Sugar sub-sector plays a significant role in the economy of this country. Besides ensuring adequate supply of sugar for national consumption, the sugar sector continues to contribute significantly to the agricultural Gross Domestic Product and saves the economy in excess of US \$250 million (KShs.16.5 billion) in foreign exchange through import substitution.

The Kenya Sugar Board is the apex body charged with the responsibility of regulating, developing and promoting the sugar Industry. Our vision is to be the best facilitator and regulator of a world class sugar cane multiproduct industry. The financial profitability of the institution and the industry is one of the key indicators of our performance with regards to the actualization of our vision. To enable us drive the industry towards the realization of this vision, we redefined the requisite strategic interventions as follows:

Enhancing Sugar Industry competitiveness through reduction of risk, efficient farming and milling operations and enhanced human resource capacity.

During the year under review, the Board participated in the development of a national policy that supports the production, blending and marketing of ethanol. We are currently negotiating for increased tariffs for cogenerated electricity, to motivate more millers to invest in cogeneration on a commercial basis.

Currently the industry is expanding with the licensing of new milling companies which will see the local sugar production rise to meet the national sugar demands. This venture is capital intensive and we are aggressively pursuing partnership with private investors to inject more capital into the industry.

We are committed to efficiently managing and harnessing both human and economic resources, enhancing our operational efficiencies and adoption of prudent financial management practices for industry growth. Towards this end we have put in place effective policies and systems to guide us in all our financial and technical operations. We also continue to build capacities in the industry to ensure that all institutions in the sector engage in prudent financial management practices in order to gain a good return of investment for its stakeholders.

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The resources required to adequately achieve these objectives often outweigh what is at our disposal. This among other global macro-economic concerns inevitably challenges us as an institution and the industry. We however, believe that these challenges present us with opportunities to continuously re-evaluate our policies, strategies and working culture in order to obtain our intended objectives with minimal resources, without compromising the quality of our service.

Finally, on my behalf and that of the Board we affirm our unwavering commitment towards the development of an efficient, competitive and sustainable sugar industry in Kenya.



**A. ONYANGO
ALTERNATE DIRECTOR, FOR BOARD CHAIRMAN.**

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II. REPORT OF THE CHIEF EXECUTIVE OFFICER

KENYA SUGAR BOARD

During the thirteen month period ended 31st July 2014, the Board reported a surplus of Kshs.67 million compared to Kshs.99 million reported in the twelve months to 30th June 2013.

The total comprehensive income for the period under review was Kshs.608 million compared to Kshs.575 million netted in the financial year 2012/2013. The 5.7% growth was attributed to growth in license and permit fees and levy income from the Sugar Development Fund. Interest income dropped by 42.6% from 34 million to 20 million due to a decline in the amount invested while levy income grew from Kshs.513 million to Kshs.553 million representing a 7.7% increase.

The operating and administrative costs were 12.7% higher at Kshs.541 million compared to Kshs.480 million the previous 12 month period. The increase was attributed to increased surveillance activities.

The Board's balance sheet weakened 9.7% from Kshs.1,152 million to Kshs.1,040 million. The main drivers were a reduction in the fixed deposits and deficits ploughed back.

STATUS OF THE KENYA SUGAR INDUSTRY

1. General Performance

The industry observed an increase of 5% in the area under cane in the year 2013/14. An area of 217,859 ha was recorded in 2013/2014 as compared to 207,802 ha at the end of 2012/2013. This is attributed to increased cane development especially in the Out grower farms. Despite this, a notable reduction (9%) in area under cane was recorded in Mumias Sugar zone resulting from farmers' disillusionment and subsequent withdrawal from cane farming.

The average industry cane yields increased from 54.83 TCH in 2012/13 to 66.3 TCH at the end of 2013/2014 financial year. This was attributed to control on harvesting of immature cane coupled with good cane husbandry practices. All millers other than Mumias and Kibos Sugar mills received adequate cane for milling during the financial year. In the financial year 2014/15 the industry is projected to have a cane deficit of approximately 900,000 tons with Mumias Sugar zone being the major contributor to the deficit. The most dominant

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varieties in the industry were CO421 (38%), CO 945 (23%), and CO 617 (17%). Among the improved cane varieties, a significant adoption of KEN 83-737 was observed attributed to its adaptability to various agro-ecological zones.

2. Sugar production, sales and stocks

Total sugar production during the period 2013/2014 fiscal year was 654,211 tonnes compared to 475,743 tonnes in the same period last year, giving a considerable increase of 38%, attributed to improved cane availability. All the sugar mills reported increased sugar production in July 2013 – June 2014 compared to the same period last year, other than Nzoia and Soin whose production decrease by 10% and 25% respectively. Production decrease in Nzoia Sugar Company was ascribed to factory close down in April and May for annual maintenance. Reduction in sugar production at Soin was due to frequent unscheduled factory shuts caused by breakdown and worsened by their poor sugar recoveries. The factory inefficiency is blamed to its open pan sulphitation technology.

Overall, Mumias Sugar Company was the main sugar producer followed by West Kenya, contributing 27% and 13% of the total sugar production in 2013/2014, respectively.

Total sugar sales for 2013/2014 were 655,310 tonnes compared to 460,152 tonnes in the same period last year, a 42% increase, mainly attributed to increased sugar supply and demand and low availability of imported sugar in the domestic market. During the period 2013/2014; a total of 50,970 tonnes of table sugar (mill white / brown) was imported compared to 88,213 in the same period last year, a 42% decrease.

Closing stocks of sugar held by the factories began the year 2013/14 at 27,392 tonnes up from 19,205 tonnes at the end of 2012/13. The level increased to a high of 42,845 tonnes in February, embarked on decreasing trend to end June 2014 at 20,202 tonnes. The high sugar stocks are attributed to sustained high sugar production and carry forward of huge stocks from the previous year.

3. Sugar Prices

Ex-factory sugar prices commenced the year 2013/2014 at a monthly average of kshs.4,425 per 50-bag, dealt on a decreasing trend to reach a minimum of kshs. 3,356 in March 2014. Some price re-correction was observed in the succeeding months to end June 2014 at a monthly average of kshs.3,572.

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Overall, ex-factory sugar prices in 2013/2014 ranged between kshs.2,900 and 4,700, giving an average of Ksh.3,771 per 50kg bag (Kshs.75,420 per tonne) compared to Kshs.4,975 per bag (Kshs.99,500 per tonne) observed in 2012/2013 financial year, giving a significant decrease of 24%.

Wholesale sugar prices started the review period, July 2013 - June 2014, at a monthly average of Kshs.4,680 per 50kg bag, dealt on a decreasing pattern to reach a minimum of ksh.3,495 in March 2014. The succeeding months traded on upward trend to end June 2014 at a monthly average of kshs.3,750 per bag.

Retail sugar prices in 2013/2014 traded at a range of kshs.70 to 160 per kg, giving an average of Kshs.112.48 per kg compared to an average of kshs.122.62 per kg observed in the same period last year, a decrease of 8%.

4. World market sugar highlights

World prices for both raw and white sugar kept moving sideways in a relatively narrow range. Spot price for raw sugar (the ISA daily price) began the year 2013/14 at a monthly average of 16.84 cents/lb (USD 371.15/tonne), picked an upward trend to reach an annual high of 18.66 cents/lb (USD 411.27/tonne) in October. Subsequently, the ISA daily price went through a downward correction to attain a low of 15.63 cents/lb (USD 344.49/tonne) in January. Some price improvement was observed in the succeeding months to end the review period at 18.17 cents/lb (USD 400.47/tonne).

Overall, the financial year 2013/2014 ended at an average of USD 382.67/tonne compared to USD 423.98/tonne in the same period last year, giving 10% decrease.

Total sugar imports in 2013/2014 were 172,924 tonnes compared to 226,011 tonnes in the financial year 2012/2013, a decrease of 23%. The decrease is mainly attributed to low imports of brown/mill white sugar during the review period. A total of 50,970 tonnes of table sugar was imported in 2013/14 compared to 88,213 tonnes imported in 2012/13, a decrease of 42%.

COMESA countries supplied a total of 48,910 tonnes against 86,230 tonnes in the same period last year. EAC provided 3,102 tonnes compared to 16,842 tonnes in 2012/2013 while the remaining (120,912 tonnes) was sourced from the rest of the

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world. Decrease in imports from the referenced region is mainly attributed to low supply from the region, improved surveillance and the import regulatory regime.

Overall, most of the imported sugar came from Thailand, Saudi Arabia and South Africa with 44,325 tonnes, 37,495 tonnes and 32,866 tonnes, respectively.

Total sugar exports during the financial year 2013/2014 were 223 tonnes compared to 189 tonnes reported in 2012/2013. Bulk of the sugar was exported to Burundi (90 tonnes), Uganda (70 tonnes) and Somalia (46 tonnes).

It is observed that there was a significant increase in exports of sugar by-product (mostly jaggery), to the neighboring countries. A total 128 tonnes was exported in 2013/14 against 0.2 tonnes in the same period last year.

Overall, the average CIF value for the financial year 2013/14 was kshs. 57,112 compared with kshs. 64,352 per tonne in 2012/2013, a price decrease of 11%.



R. MKOK, MBS
CHIEF EXECUTIVE OFFICER

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III. CORPORATE GOVERNANCE STATEMENT

Kenya Sugar Board is fully committed to principles of good corporate governance. The directors are ultimately accountable to all stakeholders for ensuring the Board discharges its mandate with the highest standards of corporate governance. Of particular importance to the Board is observance of stakeholders' interest, efficient practices, integrity and transparency within the Board.

1. Board of Directors

The names of the directors who held the office during the period under review are set out on page vi to viii.

The Board is responsible for formulating policies and strategies and ensuring Board mandate of promoting, developing and regulating the Industry is carried out in the best interest of stakeholders.

The Board comprises fourteen directors, seven elected by cane farmers, three elected by millers, three government representatives and the Chief Executive Officer of the institution who is an ex-officio member and Secretary to the Board.

The directors have diverse skills drawn from various sectors of the economy.

a) Directors Emoluments

Directors' emolument is guided by Government circular Ref. No MSPS.18/2A/89 of November 2009. The aggregate amount of emoluments to directors for the services rendered and insurance cover are disclosed in Note. 10 to financial statement for year ended 31st July 2014.

b) Related party transactions

There have been no materially significant related party transactions or relationship between the Board and its directors or management except those disclosed in note. 10 to KSB financial statement for the year ended 31st July 2014.

Transactions between the Sugar Development Fund and the Board are disclosed under notes 24, 31 and 32, respectively.

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2. Board Committees

The Board has in place five main Committees, namely the Finance and Establishment, Audit, Sugar Development Fund, Cane pricing and COMESA Committees. To discharge its mandate effectively the Board delegates its authority to the various sub-Committees whose chairpersons report to the Board. These Committees assist the Board in ensuring that proper, strategies, internal controls and organization structure are in place to achieve the objectives of the Board. All the Committees have detailed terms of reference and hold meetings as necessary. The Board may delegate some of its powers to any of the Committees and may appoint any other Committee, including ad hoc task forces, as and when it is deemed necessary. The authority of running of the Board management affairs on day to day is delegated to the Chief Executive officer.

a. Finance and Establishment Committee

The Committee is made up of five Directors including the Chair and the Chief Executive Officer. The Company Secretary serves as the Secretary for the Committee. The primary responsibility of the Committee is to assist the Board in developing and managing an effective and sustainable institutional capacity (Physical, human and financial) that will enable achievement of the core mandate of the Board and providing an avenue of communication among relevant stakeholders, management and the board.

b. Audit Committee

The Committee is made up of two independent Directors, two Government Directors and the head of Internal Audit who serves as the Secretary to the Committee. The responsibilities of the Committee include the review of financial information and monitoring of the effectiveness of the management information and internal control systems. The Committee receives reports from both internal and external auditors and also monitors implementation of audit recommendations on behalf of the Board.

c. Sugar Development Fund (SDF) Committee

The Committee is made up of a Fund Manager, eight Board members including the chairperson and the Chief Executive Officer.

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The primary responsibility of the Committee is the administration and management of Sugar Development Fund including policy formulation. The Committee receives and approves all loan and grant applications by eligible Sugar Industry players.

d. Cane Pricing Committee

The CPC is established under Part 3, clause 8 (1) of the Sugar Act 2001.

The Committee comprises four KSB representatives, two KESGA representatives and two KESMA representatives. The main objective of the Committee is to review sugar cane prices which shall be determined on the basis of sucrose content.

f. Comesa Safeguards Committee

- ✦ The Comesa Safeguards Committee comprises 12 members with representatives drawn from Kenya Sugar Board, Kenya Sugarcane Growers Association and Kenya Sugar Manufacturers Association.

The main objectives of the Committee include:

- a) Administering and monitoring the implementation of the sugar safeguard within the provisions of the Sugar (Imports, Exports and By-Product) Regulations;
- b) Following up with the National Sugar Safeguard Committee on all the undertakings on which the extension of the safeguard is premised;
- c) Ensuring implementation of appropriate and priority Government policies and legislation relating to the sugar industry;
- d) Monitoring the implementation of the Industry Strategic Plan and facilitating implementation of strategic decisions that will lead to competitiveness;
- e) Facilitating submission of quarterly reports to the National Sugar Safeguards Committee, which shall then consolidate the country position for the COMESA Secretariat on progress achieved in the implementation of the sugar safeguard;

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BOARD MEETINGS

Meetings of the Board are guided by First schedule clause (2) of the Sugar Act 2001. The full Board and its Committees meet at least four times in a year. However, the actual number of meetings is dictated by the businesses and the urgency to dispense them. The schedule below shows the number of meetings held for thirteen months from July 2013 to July 2014 and the attendance.

| Director | Full Board | Finance & Establishment | SDF | Risk & Audit | COMESA | CANE PRICING |
|------------------------|------------|-------------------------|-----|--------------|--------|--------------|
| 1. Hon. K. arap Kirior | 14 | - | - | - | 1 | 3 |
| 2. Ms. A. Gichu | 5 | 2 | 4 | - | - | 1 |
| 3. Ms. A. Onyango | 8 | 3 | 1 | 1 | 1 | - |
| 4. Mr. H. Patel | 14 | - | 8 | 4 | 1 | - |
| 5. Mr. N. O. Oricho | 14 | - | 8 | 4 | - | 3 |
| 6. Mr. B.W. Mukenya | 14 | 8 | 1 | - | 1 | 3 |
| 7. Mr. E. Mwombe | 14 | 8 | 8 | - | - | 3 |
| 8. Eng. M. Mukhwana | 14 | - | 8 | 4 | 1 | - |
| 9. Hon. S. Busolo | 14 | 8 | 8 | - | 1 | 3 |
| 10. Mr. J. Rai, MBS | 9 | - | 6 | - | 1 | 1 |
| 11. Ms. Anne Mugo | 11 | 5 | 5 | 3 | 1 | - |

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3. Management Committees

The top management of the Board is made up of eight Heads of Department and the Chief Executive Officer.

a. Executive Committee

The Executive Committee is chaired by the Chief Executive Officer and comprises all the eight heads of Department. This Committee has overall responsibility for day to day running of the Board, strategy implementation and monitoring and evaluation of performance. The Committee advises and assists the CEO in making decisions that define the direction of the Board.

b. Management Tender Committee

The Committee is made up of all Heads of Department except the head of internal audit with the Senior Procurement Officer serving as the Secretary to the Committee. The primary role of the Committee is to adjudicate and award tenders whose value is above the Kshs.500,000 ceiling in line with Public Procurement Guidelines.

4. Risk management and Internal control

Management in consultation with the Risk and Audit Committee is responsible for the Board's day to day overall risk management and maintenance of an effective system of internal controls that minimizes potential adverse effects on its financial performance.

This is undertaken by implementation of an enterprise risk management framework which ensures a comprehensive, coordinated and systematic approach to risk management.

The Board has put in place the necessary structures and conducted trainings to all staff and directors to enhance competence in risk management. In addition the Board has strengthened the Internal Audit to enable it review the adequacy of the risk management process.

5. Responsibility for staff welfare training

As part of its policy, the Board recognizes its staff as the most important assets and the need for diversity, equal opportunities, gender sensitivity, and provision

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of a safe and conducive work environment. The Board assists its staff to undertake continuous professional and development training programmes to fulfill their potential.

The process is appropriately managed to align staff development with Board's strategic goals and objectives.

6. Compliance

The Board operates within the requirements of the Sugar Act, State Corporations Act, Exchequer and Audit Act among other legislations and adopts certain universally accepted principals within the area of labour standards in its commitment to best practice. The Board prepares its financial statements in accordance with International Public Sector Accounting Standards (IPSAS).

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IV. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Social Responsibility is one of the core values of the Kenya Sugar Board. Management in consultation with the Board of Directors developed a Corporate Social Responsibility (CSR) Policy with the main objectives being to enhance the living standards of individuals or communities who associate with the Board or industry through execution of CSR projects.

CSR has increasingly taken an integral position in the Board. Voluntarily, KSB has given back resources, skills, time and money to the communities where they operate and areas around the sugar industry. This has helped employees to integrate into a Corporate culture that is conscious of the world around it and helps them feel positive about the work that they do, with the positivity spreading to stakeholders and the community at large.

a. Education

The industry has significantly contributed to education especially in the sugar belt. Currently, majority of the factories have/support primary and secondary schools in the community. These schools are attended by children from the communities around the respective sugar factories and children of staff members working in the same factories.

To compliment these efforts by the sugar factories and in recognition of the fact that education is key for the development of any community, KSB has contributed towards projects that promote education. This also serves to motivate students to strive for excellence and to provide an opportunity to strategically create awareness about KSB and build goodwill among the younger generations.

b. Community outreach

Kenya Sugar Board is committed to being a responsible corporate citizen through the support for appropriate non-political and non-sectarian projects and local charities both with financial and non-financial donations. We aim at supporting the creation of prosperous, educated, sustainable and healthy communities in the environment in which we operate. With a focus on health, education, food security and the environment, we did develop target programmes for local communities, involving commercial sponsorship and significant employee engagement through direct involvement.

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c. Health & Safety

The Board recognizes that a healthy workforce contributes to the productivity of the organization and the industry. It therefore invests in the welfare of industry key stakeholders by supporting health programmes in sugarcane growing zones

d. Charitable Donations

An amount is allocated for donations to charity and support for good causes especially with respect to food security, health and education. The amount allocated is administered and allocated on merit by the CSR Committee.

e. Employee participation

Since employees play a central role in implementation of CSR Programs, the input of employees is considered by the Committee at every stage, from preliminary assessment, through strategy development and articulation of commitments.

f. The Corporate Social Responsibility Committee

The CSR Committee comprises representatives from every Department.

Where necessary ad-hoc working groups are constituted to implement and identify projects. These working groups comprise representatives from all cadres of the organization, to ensure participation by all members of the organization.

g. Stakeholder Participation & communication

The execution of CSR programs involves the target stakeholders as much as possible. The strategy is to have an inbuilt internal and external communication program to ensure that there is sustained awareness creation before, during and after the implementation of every CSR project.

h. Evaluation and Reporting

The evaluation of CSR Projects determines the extent to which objectives of the policy were met and the effect of the projects to the target communities.

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V. REPORT OF THE DIRECTORS

The Directors submit their Report together with the audited Financial Statements for the period ended 31st July 2014, which disclose the state of affairs of the Board.

Incorporation

The Board was incorporated in Kenya under the Sugar Act 2001 and is domiciled in Kenya. The address of the registered office is as set out on page 2.

Principal activities

The principal activities of the Board are to regulate, develop and promote the Sugar Industry.

| Results | JULY 2014 | JUNE 2013 |
|-----------------------------|------------------|------------------|
| | Kshs '000 | Kshs '000 |
| Total Comprehensive Surplus | 65,200 | 99,257 |

Directors

The directors who held office during the period to the date of this report are listed on page 3.

Auditor

The Auditor General, will continue in office in accordance with Public Audit Act 2003.

By order of the Board.



Andrew Osodo
COMPANY SECRETARY

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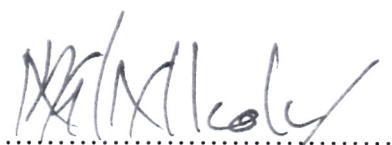
VI. STATEMENT OF THE DIRECTORS' RESPONSIBILITIES

The State Corporation Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Board as at the end of the financial year and of its profit or loss. It also requires the directors to ensure that the Board keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Board. They are also responsible for safeguarding the assets of the Board.

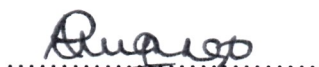
The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Public Sector Accounting Standards and the requirements of the State Corporations Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

It has come to the attention of the directors that the Kenya Sugar Board will cease to exist as from 1st August 2014, due to the gazettelement of the Crops Act, 2013. The former Kenya Sugar Board will be succeeded by AFFA (Agriculture Fisheries and Food Authority) which will take over all the assets and liabilities of the former institution. Based on this, the financial statements have been prepared for a period of thirteen months ending 31st July, 2014.

Approved by the Board of directors and signed on its behalf by:



**R. MKOK, MBS
CHIEF EXECUTIVE OFFICER**



**A. ONYANGO
ALTERNATE DIRECTOR**

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-Mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON KENYA SUGAR BOARD FOR THE THIRTEEN MONTHS PERIOD ENDED 31 JULY 2014

REPORT OF THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Sugar Board set out on pages 1 to 31, which comprise the statement of financial position as at 31 July 2014, 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 period 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 14 of the Public Audit Act, 2003. 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.

Management's Responsibility for the Financial Statements

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 such internal control as management determines is necessary to enable presentation of financial statements that are free from material misstatement, whether due to fraud or error.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2003. The audit was conducted in accordance with International Standards of Auditing (ISA). Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. An audit also includes

evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

1. Property, Plant and Equipment

As previously reported, the property, plant and equipment balance of Kshs.275,522,000 excludes an undetermined value of land in Athi River which was allocated to the Board on 18 April 1995. Although the management has made several attempts including paying Government rates and land rent to repossess and value the land, it has not been possible due to delay by the Ministry of Land, Housing and Urban Development. It is not clear therefore if and when the land will be valued for inclusion in the financial statements.

Under the circumstances, it is not possible to ascertain the accuracy of the carrying values of property, plant and equipment balance of Kshs. 275,522,000 as at 31 July 2014.

2. Receivables from Non-Exchange Transactions

As previously reported, the receivables from non-exchange transactions of Kshs.35,130,000 as reported under note 24 to the accounts includes imprests and car loans owed by three (3) former employees of the Board amounting to Kshs.2,598,589.00 which have been outstanding for a considerable period of time. Although a provision for bad and doubtful debts has been provided for in the financial statements and various efforts have been made by the management to pursue recovery of these debts including legal interventions, these have not so far been successful. Consequently, the recoverability of these debts appears doubtful. No explanation has been provided for failure to recover these debts before releasing the former staff.

Qualified Opinion

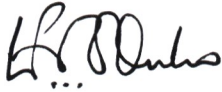
In my Opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Board as at 31 July 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards and comply with the Sugar Act, 2001.

Emphasis of Matter

Going Concern

With the operationalization of the Agriculture, Fisheries and Food Act and Crops Act of 2013 on 1 August 2014, the Authority has ceased to exist as a legal entity and it now

operates as a Directorate under the Agriculture, Fisheries and Food Authority (AFFA).
My opinion is not qualified in respect of this matter.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

27 March 2015

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STATEMENT OF FINANCIAL PERFORMANCE

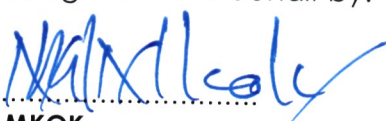
| | Note | July 2014 Kshs'000 | June 2013 Kshs'000 |
|--|------|-----------------------|-----------------------|
| Revenue from non-exchange transaction | | | |
| Levy income | 3 | 552,807 | 513,278 |
| License and Permits | 4 | 32,891 | 23,805 |
| | | 587,631 | 537,082 |
| Revenue from exchange transaction | | | |
| Interest from short term deposits | 5 | 19,794 | 34,348 |
| Rent income | 6 | 624 | 576 |
| Miscellaneous Income | 7 | 1,496 | 3,089 |
| | | 21,914 | 38,013 |
| Total Revenue | | 609,545 | 575,095 |
| Expenses | | | |
| Staff costs | 9 | 223,496 | 205,881 |
| Director's expenses | 10 | 44,678 | 35,869 |
| Motor vehicle expense | 11 | 15,287 | 13,994 |
| Communication expense | 12 | 6,582 | 5,756 |
| Travel expenses | 13 | 67,269 | 54,869 |
| Marketing & publicity | 14 | 43,859 | 45,021 |
| Establishment costs | 15 | 45,573 | 52,305 |
| Entertainment costs | 16 | 4,279 | 6,156 |
| Premises expenses | 17 | 24,843 | 18,398 |
| Professional fees | 18 | 33,234 | 20,887 |
| Insurance expenses | 19 | 231 | 379 |
| Depreciation expenses | 20 | 32,598 | 19,567 |
| Finance cost | 21 | 280 | 540 |
| Total Expenses | | 542,210 | 479,621 |
| Other Gains/(Losses) | | | |
| Bad debts paid | | - | 3,125 |
| Gain/(Loss) on sale of assets | 8 | (203) | 658 |
| Net surplus | | <u>65,200</u> | <u>99,257</u> |

KENYA SUGAR BOARD
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STATEMENT OF FINANCIAL POSITION

| | Note | July 2014 Kshs'000 | June 2013 Kshs '000 |
|---|------|-------------------------|-------------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 22 | 171,441 | 364,696 |
| Receivables from exchange transactions | 23 | 2,503 | 9,494 |
| Receivables from non-exchange transactions | 24 | 35,130 | 4,502 |
| Inventories | 25 | <u>2,403</u> | <u>2,684</u> |
| | | 211,477 | 381,377 |
| Non-current assets | | | |
| Property, plant and equipment | 27 | 275,522 | 224,666 |
| Collateral deposits | 26 | <u>166,946</u> | <u>163,682</u> |
| | | 442,468 | 388,348 |
| Total Assets | | <u>653,945</u> | <u>769,724</u> |
| Current liabilities | | | |
| Trade & other payables from exchange transactions | 28 | 45,337 | 55,201 |
| Pension and other post-employee benefit obligations | 29 | 9,159 | 5,725 |
| Payment received in advance | 30 | - | 2,000 |
| Current portion borrowings | 31 | <u>13,588</u> | <u>53,678</u> |
| | | 68,084 | 116,604 |
| Non-current liabilities | | | |
| Borrowing | 31 | <u>40,548</u> | <u>77,158</u> |
| Total liabilities | | <u>108,632</u> | <u>193,762</u> |
| Net Assets | | 545,314 | 575,963 |
| Reserves | | 82,848 | 89,606 |
| Accumulated Revenue Reserves | | <u>462,466</u> | <u>486,357</u> |
| | | <u>1,090,628</u> | <u>1,151,925</u> |

The financial statements on pages 1 to 6 were approved for issue by the Management and signed on its behalf by:



R. MKOK
CHIEF EXECUTIVE OFFICER



A. ONYANGO
ALTERNATE DIRECTOR

KENYA SUGAR BOARD
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STATEMENT OF CHANGES IN NET ASSETS

| Note | Capital Reserve Kshs'000 | Revaluation Reserve Kshs'000 | Revenue Reserves Kshs'000 | SRSP Fund Kshs'000 | Total Reserves Kshs'000 |
|--|-----------------------------|---------------------------------|------------------------------|----------------------------------|-----------------------------------|
| Balances as at At 1st July 2012 | 6,900 | 43,114 | 394,112 | 65,787 | 509,913 |
| Surplus for the year | - | - | 99,257 | - | 99,257 |
| Prior year adjustment | | | (7,013) | | (7,013) |
| SRSP Operations As at 30th June 2013 | <u>6,900</u> | <u>43,114</u> | <u>486,357</u> | <u>(26,195)</u> 39,592 | <u>(26,194)</u> 575,963 |
| Balances as at At 1st July 2013 | 6,900 | 43,114 | 486,357 | 39,592 | 575,963 |
| Surplus for the year | - | - | 65,200 | - | 65,200 |
| Prior year adjustment 33 | | | (89,090) | | (89,090) |
| SRSP Operations 36 As at 31st July 2014 | <u>6,900</u> | <u>43,114</u> | <u>462,466</u> | <u>(6,758)</u> 32,834 | <u>(6,758)</u> 545,314 |

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STATEMENT OF CASH FLOWS

| | Note | July 2014 Kshs'000 | June 2013 Kshs'000 |
|---|------|------------------------|------------------------|
| Cash flows from operating activities | | | |
| Cash generated from operations | 34 | (116,544) | 72 |
| Interest received | 5 | 19,794 | 34,348 |
| Net cash generated from operating activities | | <u>(96,750)</u> | <u>34,420</u> |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 37 | (79,478) | (60,285) |
| Proceeds from disposal of property, plant and Equipment | | 171 | 895 |
| Cash placed as collateral with a bank | | (3,264) | <u>(32,953)</u> |
| Net cash generated from investing Activities | | <u>(82,571)</u> | <u>(92,343)</u> |
| Cash flows from financing activities | | | |
| Funds under SRSP | 36 | (6,758) | (26,194) |
| Repayments of long-term borrowings | 31 | <u>(7,176)</u> | <u>(3,588)</u> |
| Net cash generated from financing Activities | | <u>(13,934)</u> | <u>(29,782)</u> |
| Decrease in cash and cash equivalents | | (193,255) | (87,704) |
| At the start of the year | | <u>364,696</u> | <u>452,401</u> |
| At the end of the year | | <u>171,441</u> | <u>364,696</u> |

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STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

| | Original Budget | Actual on | Performance |
|-----------------------------------|-----------------------------|--|--|
| | 2013-July 2014 Kshs.`000 | Comparable Basis 2013- July 14 Kshs.`000 | Difference 2013-July14 Kshs.`000 |
| Revenue | | | |
| Sugar Levy | 623,824 | 552,807 | (69,084) |
| Millers annual licensing fees | 23,500 | 24,300 | 800 |
| Sugar Importers licensing fee | 9,667 | 6,650 | (3,017) |
| Molasses permits | 1,312 | 1,941 | 629 |
| | - | - | - |
| | - | - | - |
| Interest from short term deposits | 15,043 | 19,794 | 4,751 |
| Rent income | 624 | 624 | - |
| Other Miscellaneous Receipts | 875 | 1,496 | 621 |
| Grant DEVT Partner-EU | 19,913 | 143 | (19,770) |
| Total Revenue | 694,758 | 607,756 | (87,002) |
| EXPENSES | | | |
| Staff costs | 353,269 | 223,496 | 129,773 |
| Directors' expenses | 49,991 | 44,678 | 5,313 |
| Motor vehicle expense | 14,821 | 15,287 | (466) |
| Communication expense | 8,254 | 6,582 | 1,672 |
| Travel expenses | 60,423 | 67,268 | (6,845) |
| Marketing & Publicity | 42,192 | 43,859 | (1,667) |
| Establishment costs | 50,091 | 45,573 | 4,518 |
| Entertainment | 5,200 | 4,279 | 921 |
| Premises expenses | 23,189 | 24,843 | (1,654) |
| Professional fees | 20,050 | 33,234 | (13,184) |
| Insurance | 527 | 231 | 296 |
| Depreciation | 31,424 | 32,598 | (1,174) |

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| | | | |
|--------------------------|----------------|----------------|----------------|
| Finance cost | 590 | 280 | 310 |
| Grant DEVT Partner-EU | 19,913 | 8,318 | 11,595 |
| Total Expenditure | 679,934 | 550,528 | 129,406 |
| Surplus for the period | 14,824 | 57,228 | 42,404 |

| CAPITAL EXPENDITURE | Original Budget | Actual on | Performance |
|----------------------------|------------------------|-------------------------|---------------------|
| | 2013-July 14 | Comparable Basis | Difference |
| | Kshs. `000 | 2013-July 14 | 2013-July 14 |
| | | Kshs. `000 | Kshs. `000 |
| Buildings | 30,000 | 30,000 | - |
| Motor Vehicles | 14,000 | - | 14,000 |
| Office Equipment | 10,759 | 996 | 9,763 |
| Office Furniture | 5,063 | - | 5,063 |
| Fixtures & Fittings | 8,340 | - | 8,340 |
| Computer Equipment | 42,339 | 7,307 | 35,032 |
| Total | 110,501 | 38,303 | 72,198 |

Explanatory notes on significant performance differences

a) Revenue

During the period under review, Kenya Sugar Board's total revenue was Kshs.87m below the budgeted amount of Kshs.697m. This was attributed to low importation of brown/mill white sugar and decreased ex-factory sugar prices despite high production levels. Interest from short-term deposits was 4.7m above the budgeted figure of 15m due to increase in amounts held on the short-term deposits compared to budget.

b) Expenses

During the period under review, the Board's actual staff costs were Kshs.129.8m below the budget of Kshs.353m. This was due to anticipated staff salary review which was put on hold by way of the Government of Kenya directive. Professional fees were Kshs.13.2m above budget mainly as a result of legal cases that came up during the year that were not planned for. Kenya Sugar Board Budgeted for EU grants to the tune of Kshs.19.9m but only kshs8.3m was spent. This was attributed to road infrastructure expenses that the board had budgeted

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for, the infrastructure works were undertaken but payment to the contractors made directly by EU due to threshold requirements. Travel expenses were also Kshs.6.8m above budget due to staff transfers to new stations arising out of rationalization of operations coupled with increased surveillance activities aimed at curbing illegal imports.

c) Capital Expenditure

The Board did not utilize 65% of the capital budget due to restriction by government to spend the funds.

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NOTES TO THE FINANCIAL STATEMENTS

1. General Information

The financial statement of the Board for the thirteen months ended 31st July 2014 were authorized for issue in accordance with the resolution of the Board of directors on 30th July 2014. Board principal activities are to regulate develop and promote the Sugar Industry. The registered office is Sukari Plaza Off Waiyaki Way Nairobi.

2.1 Statement of compliance and basis of preparation

The financial statement of the Board is prepared in compliance with and comply with international public sector Accounting Standards (IPSAS). The financial statements are presented in Kenya Shillings (Kshs) which the functional and reporting currency of the Board and all values are rounded to the nearest thousand (Ksh000). The accounting policies have been consistently applied to all the years presented.

2.2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Revenue recognition

Revenue from non-Exchange transactions

The Board recognizes Levy income on the basis of sugar sales by millers. Sugar millers are obliged to payment levy charged on sales.

Transfers from development partners

Revenue from non- exchange transactions from development partners are measured at fair value and recognized on obtaining control of the assets(cash, goods, services and property) if the transfer if free from any condition and is probable that the economic benefits or service potential related to the asset will flow to the Board and can be measured reliably.

Revenue from exchange transactions

Interest income is accrued using effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to the asset net carrying amount. The method applies

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this yield to the outstanding principal to determine interest income each period.

Rendering of Services

The Board recognizes revenue from permits and licenses when the document is prepared and ready for issue.

Rent income

Rental income arising from staff quarter and staff canteen is recognized at the end of every month the property is occupied.

Sale of old assets and documents

Revenue from sale of old assets is recognized when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from sale of documents and other periodicals is recognized when ownership is transferred.

(b) Budget information – IPSAS 24

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 the Board. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or entity 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) Taxes

Current income tax liabilities for the current period are measured at the amount expected to be paid to tax 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 Board operates and generates taxable income.

(d) Sale tax

Expenses and assets are recognized net of the amount of sale tax, except:

- Where the sale tax incurred on purchase assets or is not recovered from the taxation authority, in which case the sale tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.
- When the receivables and payables are stated with the amount of sale tax included. The net amount of sales tax recovered from, or payable to, the

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taxation authority is included as part of receivables or payables in the statement of financial position.

(e) Investment property – IPSAS 16

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property.

Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment properties are measured using the cost model and are depreciated over a 30-year period.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition.

Transfers are made to or from investment property only when there is a change in use.

(f) Property, plant and equipment-IPSAS 17

All property, plant and equipment are initially stated at cost less accumulated depreciation. Cost is that which is directly attributable to acquisition of the items. When significant part of the property, plant and equipment are required to be replaced at intervals, the Board 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 deficits 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.

Under IPSAS 17 the Board has a policy choice for the measurement of property, plant and equipment after initial recognition. The Board may choose either the cost model or the revaluation model for the entire classes of property, plant and

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equipment. The Board has elected to use the revaluation model for classes of property, plant and equipment.

Freehold land is not depreciated. Depreciation on other assets is calculated using either straight line or reducing method to write down their cost or revalued amounts to their residual values over their estimated useful lives. The rates and depreciation method applied is as follows:

| | Rates - % | Method |
|-----------------------|------------------|---------------|
| Buildings | 2.5 % | Reducing |
| Office equipment | 12.5 % | Reducing |
| Motor vehicles | 25.0 % | Straight line |
| Computers | 33.3 % | Straight line |
| Office furniture | 12.5 % | Reducing |
| Maintenance equipment | 12.5 % | Reducing |
| Fixtures and Fittings | 12.5 % | Reducing |

(g) Intangible assets – IPSAS 31

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

The useful life of the intangible assets is assessed as either finite or indefinite.

(h) Research and development costs

The Entity expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Entity can demonstrate:

- The technical feasibility of completing the asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits or service potential

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- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

i) Financial instruments – IPSAS 29

Financial assets

Initial recognition and measurement

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.

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Entity has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are 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

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part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

Impairment of financial assets

The Entity assesses at each reporting date whether there is objective evidence that a financial asset or a entity of financial assets is impaired. A financial asset or an entity of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or an entity of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

j) Financial liabilities

Initial recognition and measurement

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 Board determines the classification of its financial liabilities at initial recognition.

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

Loans and borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses

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are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

IPSAS 29.65

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.

k) Inventories – IPSAS 12

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

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

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

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

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

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

I) Provisions – IPSAS 19

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

Where the Board expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent liabilities

The Board 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 Board 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 Entity 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.

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m) Nature and purpose of reserves

The Board has created and maintained four types of reserves as described below:

Capital Reserves

This is a reserve meant to cater for items of capital nature donated to the Board. This comprises of the value of the Board's Kabete plot L.R. No. 21705 in which its headquarters are situated.

Re-valuation

The Board has created and maintained revaluation reserve to hold revaluation surpluses. Valuation deficits are charged on statement of performance, while the revaluation surpluses are credited and accumulated revaluation Surplus

Revenue Reserves

This is a buildup of retained earnings over the past years. Surplus for the period are accumulated under this reserve .

n) Changes in accounting policies and estimates – IPSAS 3

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

o) Employee benefits – IPSAS 25

Retirement benefit plans

The Board provides retirement benefits for its employees. Defined contribution plans are post-employment benefit plans under which the Board pays fixed contributions into Standard Chartered Bank Investment and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

p) Foreign currency transactions – IPSAS 4

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

s) Borrowing costs – IPSAS 5

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment.

Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

q) Related parties – IPSAS 20

The Board regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa. Members of key management are regarded as related parties and comprise the Board of directors and top management team.

r) Service concession arrangements – IPSAS 32

The Board analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Board recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Entity also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

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s) Cash and cash equivalents

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

t) Comparative figures

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

u) Significant judgments and sources of estimation uncertainty – IPSAS 1

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

Estimates and assumptions

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

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beyond the control of the Board. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

Useful lives and residual values

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in note 29.

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

Assumptions were used in determining the provision for rehabilitation of landfill sites. Landfill areas are rehabilitated over years and the assumption was made that the areas stay the same in size for a number of years.

Provision is made for the estimated cost to be incurred on the long-term environmental obligations, comprising expenditure on pollution control and closure over the estimated life of the landfill. The provision is based on the advice and judgment of qualified engineers.

The estimates are discounted at a pre-tax discount rate that reflects current market assessments of the time value of money.

The increase in the rehabilitation provision due to passage of time is recognized as finance cost in the statement of financial performance.

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The cost of ongoing programs to prevent and control pollution and rehabilitate the environment is recognized as an expense when incurred.

v) Subsequent events – IPSAS 14

The Agriculture Fisheries and Food Authority Act 2013 was gazette on 1st August 2014 thereby dissolving Kenya sugar Board and having all its assets and liabilities assumed by the new Authority.

| 3. Levy Income | July 2014 Kshs '000 | June 2013 Kshs '000 |
|-----------------------------------|--------------------------------|--------------------------------|
| Total SDL for the thirteen months | 1,858,175 | 1,725,303 |
| SDL available for sharing (85%) | <u>1,579,449</u> | <u>1,466,508</u> |
| Levy received | <u>552,807</u> | <u>513,278</u> |

Levy income is received by the Board from SDF and is based on 1.4/4 of the revenue available for sharing.

4. Licenses and permit income

| | July 2014 Kshs '000 | June 2013 Kshs '000 |
|-------------------------------|--------------------------------|--------------------------------|
| Molasses permits | 1,941 | 3,405 |
| Millers Annual Licensing fee | 24,300 | 11,300 |
| Sugar Importers licensing fee | <u>6,650</u> | <u>9,100</u> |
| | <u>32,891</u> | <u>3,805</u> |

5. Interest from short term deposits

| | July 2014 Kshs '000 | June 2013 Kshs '000 |
|-----------------------------|--------------------------------|--------------------------------|
| Interest income on deposits | 19,794 | 34,348 |

Surplus funds of the Board are invested in short term deposits with financial institutions at the prevailing market rates.

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6. Rent Income

| | July 2014 Kshs '000 | June 2013 Kshs '000 |
|-------------------------|------------------------|------------------------|
| Rent from staff quarter | 468 | 432 |
| Rent from canteen | <u>156</u> | <u>144</u> |
| | <u>624</u> | <u>576</u> |

Some of the support staff of the Board are housed in the staff quarters where they are charged rent at arm's length. The canteen is rented out to an independent service provider to offer catering services to the staff.

7. Miscellaneous income

| | July 2014 Kshs '000 | July 2013 Kshs '000 |
|------------------------|------------------------|------------------------|
| Miscellaneous receipts | 1,496 | 3,089 |

Miscellaneous income of the Board includes sale of tender documents, sale of sugar year book, sugar statistics and other incomes.

8. Loss on Sale of assets

| | July 2014 Kshs '000 | July 2013 Kshs '000 |
|-------------|------------------------|------------------------|
| Gain/(Loss) | (203) | 658 |

9. Staff costs

| | July 2014 Kshs. '000' | June 2013 Kshs. '000' |
|---------------------------|--------------------------|--------------------------|
| Basic Pay | 133,067 | 123,602 |
| House Allowance | 28,781 | 26,146 |
| Entertainment Allowance | 1,342 | 1,190 |
| Other Allowances | 11,008 | 5,839 |
| Passage & Leave Expenses | 2,101 | 2,590 |
| Co. NSSF Contribution | 284 | 259 |
| Co Pension Contribution | 17,775 | 17,764 |
| Co. Gratuity Contribution | 1,531 | 1,452 |
| Transport Allowance | 17,472 | 15,689 |
| Responsibility Allowance | 1,116 | 1,071 |
| Utilities | 6,496 | 5,817 |
| GPA Insurance | <u>2,523</u> | <u>4,461</u> |
| | 223,496 | 205,881 |

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| | | |
|---|---------------|---------------|
| 10. Directors Expenses | | |
| Travel, accommodation and sitting allowance | 42,803 | 34,461 |
| Directors Insurance | 835 | 448 |
| Honoraria | <u>1,040</u> | <u>960</u> |
| TOTAL | 44,678 | 35,869 |
| 11. Motor vehicle expenses | | |
| Fuel Expenses | 8,046 | 7,020 |
| Tyres & Tubes | 813 | 499 |
| Motor Vehicle Maintenance | 3,873 | 4,107 |
| Toll Charges | 11 | 13 |
| Renewal of Driving Licenses | 10 | 7 |
| Motor Vehicle Insurance | 2,052 | 1,961 |
| Motor Vehicle inspection | 71 | 43 |
| Rates - Parking fees | <u>411</u> | <u>344</u> |
| TOTAL | 15,287 | 13,994 |
| 12. Communication Expenses | | |
| Telephone expenses | 5,265 | 3,760 |
| Internet expenses | 34 | 779 |
| Postage & telegrams | <u>1,283</u> | <u>1,218</u> |
| TOTAL | 6,582 | 5,756 |
| 13. Travel Expenses | | |
| Travel - Employees | 65,544 | 53,807 |
| Travel - Non-Employees | <u>1,725</u> | <u>1,062</u> |
| TOTAL | 67,269 | 54,869 |
| 14. Marketing and Publicity | | |
| Conferences & Meetings | 14,878 | 18,139 |
| Publicity | 8,067 | 7,845 |
| ASK Show Expenses | 6,642 | 4,852 |
| Donations | 2,943 | 1,687 |
| International Conferences | <u>11,329</u> | <u>12,499</u> |
| TOTAL | 43,859 | 45,021 |
| 15. Establishment Costs | | |
| Stationery Expenses | 4,047 | 4,350 |

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| | | |
|---------------------------------------|---------------|---------------|
| Uniforms & Clothing | 495 | 575 |
| Books & Periodicals | 167 | 1,145 |
| Library Expenses | 22 | 221 |
| Newspapers | 1,070 | 926 |
| Office Beverage | 1,248 | 1,591 |
| Staff Welfare Expense | 1,583 | 2,173 |
| Training | 10,904 | 12,048 |
| Medical Expenses | 22,782 | 25,437 |
| Seminars and workshops | <u>3,255</u> | <u>3,839</u> |
| | 45,573 | 52,305 |
| 16. Entertainment Costs | | |
| Official Entertainment | 3,862 | 5,317 |
| Members Clubs | <u>417</u> | <u>839</u> |
| | 4,279 | 6,156 |
| 17. Premises Expenses | | |
| Electricity | 3,386 | 2,607 |
| Water | 741 | 716 |
| Rent | 6,945 | 5,044 |
| Rates | 1,211 | 593 |
| Plant & Equipment Maintenance | 3,346 | 2,320 |
| Buildings & Stations Maintenance | 3,877 | 2,669 |
| Hire of Security Services | 3,086 | 3,222 |
| Compound Maintenance | 819 | 123 |
| Fixed Assets Expensed | 124 | 114 |
| Miscellaneous & Other Charges | <u>1,308</u> | <u>990</u> |
| TOTAL | 24,843 | 18,398 |
| 18. Professional fees | | |
| Audit Fees | 1,382 | 1,452 |
| Consultancy | 4,939 | 6,177 |
| Legal Fees | 26,807 | 8,256 |
| Other Professional Fees & Commissions | <u>106</u> | <u>5,003</u> |
| | 33,234 | 20,887 |
| 19. Insurance Expenses | | |
| Money Fire & Perils Insurance | 68 | 694 |
| Office Equipment Insurance | 36 | 48 |
| Other Insurances | <u>126</u> | <u>3,045</u> |
| | 231 | 3,787 |

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20. Depreciation Expenses -PPE

| | | |
|---|---------------|---------------|
| Depreciation - Buildings | 2,386 | 2,112 |
| Depreciation - Motor Vehicles | 14,421 | 10,573 |
| Depreciation - Office Equipment | 1,192 | 784 |
| Depreciation - Office Furniture | 1,581 | 1,358 |
| Depreciation - Fixtures & Fittings | 756 | 785 |
| | | |
| Depreciation - Computers | 12,148 | 3,834 |
| Depreciation - Maintenance Equipment | <u>114</u> | <u>121</u> |
| | 32,598 | 19,567 |

21. Finance Costs

| | July 2014 Kshs'00 | June 2013 Kshs'000 |
|--------------|----------------------|-----------------------|
| Bank charges | <u>280</u> | <u>540</u> |

22. Cash and Cash Equivalents

| | 31.07.2014 <u>KSHS</u> | 30.06.2013 <u>KSHS</u> |
|-----------------------------------|---------------------------|---------------------------|
| National Bank Hill Branch Nairobi | 33,760 | 4,393 |
| Standard Chartered-Kisumu | 202 | 51 |
| Standard Chartered-Kakamega | 89 | 345 |
| National Bank Mombasa | 413 | 148 |
| Petty Cash Nairobi | 300 | 0 |
| Petty Cash Kisumu | 149 | 0 |
| Petty Cash Mombasa | 8 | 0 |
| Petty Cash Kakamega | 108 | 0 |
| SRSP Euro Account | 32,502 | 40,429 |
| Short term deposits | <u>103,910</u> | <u>319,329</u> |
| | <u>171,441</u> | <u>364,696</u> |

23. Receivables from exchange transactions

| | | |
|--------------------------|---------------------|---------------------|
| Prepayments and deposits | 2,503 | 9,494 |
| | <u>2,503</u> | <u>9,494</u> |

24. Receivables from non- exchange

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Transactions

| | | |
|-------------------------------|----------------------|---------------------|
| Imprests | 2,048 | 281 |
| Staff advances | 2,858 | 3,564 |
| Debts owed by former staff | 2,599 | 2,628 |
| Outstanding debt from SDF | 16,397 | 0 |
| Other debtors | 14,040 | 1,173 |
| Owed to SRSP | <u>332</u> | <u>0</u> |
| | 38,273 | 7,645 |
| Less provisions for bad debts | <u>3,143</u> | <u>3,143</u> |
| | <u>35,130</u> | <u>4,503</u> |

25. Inventories

| | | |
|------------------|---------------------|---------------------|
| Stationery stock | 2,403 | 2,684 |
| | <u>2,403</u> | <u>2,684</u> |

26. Collateral Deposits

| | | |
|-------------------------------------|-----------------------|-----------------------|
| Opening balance as at 1st July 2013 | 163,682 | 130,729 |
| Additional Investment | 0 | 30,000 |
| Interest capitalized | 3,264 | 2,953 |
| At 31st July 2014 | <u>166,946</u> | <u>163,682</u> |

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27. Property, plant and Equipment

| | Buildings & Freehold land Kshs '000 | Motor Vehicles Kshs '000 | Office Equip. Kshs '000 | Office Furn. Kshs. '000 | Fixture & Fittings '000 | Land & improve -ments '000 | Computer Equipment Kshs '000 | Maintenance Equip. Kshs '000 | Total Kshs '000 |
|--|-------------------------------------|--------------------------|-------------------------|-------------------------|-------------------------|----------------------------|------------------------------|------------------------------|-----------------|
| Cost /Valuation | | | | | | | | | |
| As at 1st July,2012 | 90,000 | 56,722 | 6,590 | 13,178 | 16,884 | 47,000 | 10,514 | 1,347 | 242,235 |
| Additions | - | 24,768 | 2,358 | 3,066 | 156 | - | 29,938 | - | 60,285 |
| Disposal | - | (2,934) | (31) | (342) | - | - | (335) | - | (3,643) |
| As at 30.06.2013 | 90,000 | 78,556 | 8,917 | 15,902 | 17,040 | 47,000 | 40,116 | 1,347 | 298,878 |
| Adjustment of opening balance | - | - | 4,400 | - | - | - | (4,400) | - | - |
| Additions | 75,524 | - | 666 | - | - | - | 7,638 | - | 83,828 |
| Disposal | - | - | (335) | (212) | - | - | (1,268) | - | (1,815) |
| As at 31.07.2014 | 165,524 | 78,556 | 13,648 | 15,690 | 17,040 | 47,000 | 42,086 | 1,347 | 380,891 |
| Depreciation | | | | | | | | | |
| 1 st July,2012 | 5,513 | 31,762 | 1,136 | 2,865 | 10,620 | - | 5,776 | 1,122 | 58,794 |
| Restatement | | | | | | | | (742) | (742) |
| Charge for the year | 2,112 | 10,573 | 784 | 1,358 | 785 | - | 3834 | 121 | 19,567 |
| Disposal | | (2,934) | (12) | (127) | - | - | (332) | - | (3,406) |
| As at 30.06.2013 | 7,625 | 39,402 | 1,907 | 4,095 | 11,405 | - | 9,276 | 501 | 74,210 |
| Charge for the year | 2,387 | 14,421 | 1,191 | 1,581 | 756 | - | 12,147 | 114 | 32,599 |
| Accumulated dep Disposal | - | | (145) | (92) | | | (1,203) | | (1,441) |
| As at 31.07.2014 | 10,012 | 53,822 | 2,953 | 5,584 | 12,161 | - | 20,222 | 615 | 105,369 |
| Net book value as at 31.07.2014 | 155,512 | 24,734 | 10,695 | 10,106 | 4,879 | 47,000 | 21,864 | 732 | 275,522 |
| Net book value as at 30.06.2013 | 82,375 | 39,155 | 7,010 | 11,806 | 5,635 | 47,000 | 30,839 | 846 | 224,666 |

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28. Trade and Other payables from exchange transactions

| | July 2014 <u>KSHS</u> | June 2013 <u>KSHS</u> |
|----------------------|--------------------------|--------------------------|
| Trade creditors | 32,799 | 44,914 |
| Payroll Clearances | 10,817 | 8,407 |
| Unpaid Honorarium | 176 | 280 |
| Staff dues | 163 | 114 |
| Bank overdraft | 0 | 171 |
| Audit fees provision | 1,382 | 1,276 |
| Funds owed to SRSP | 0 | 39 |
| | <u>45,337</u> | <u>55,201</u> |

29. Pension and other post-employment benefit plans

| | | |
|--|---------------------|---------------------|
| Pending pension remittance | 4,237 | 2,335 |
| Gratuity accrued for current and former CEOs | <u>4,922</u> | <u>3,391</u> |
| | <u>9,159</u> | <u>5,725</u> |

30. Payments received in Advance

| | | |
|----------------|---|-------|
| Licensing fees | 0 | 2,000 |
|----------------|---|-------|

31. Borrowings

| | | |
|-------------------------------------|------------------------|------------------------|
| Short term borrowings | 0 | 69,525 |
| Term loan from SDF for Headquarters | <u>54,136</u> | <u>61,311</u> |
| Total borrowings | <u>54,136</u> | <u>130,836</u> |
| Less: Total Current Portion | <u>(13,588)</u> | <u>(53,678)</u> |
| Total non-current borrowing | <u>40,548</u> | <u>77,158</u> |

32. Related Party Transactions and balances

i) Kenya Sugar Board is Funded through Sugar Development Levy from Sugar Development fund at a ratio of 1.4/4 of the net levy collections after 15% reserve retentions. During the period, the Board received levy amounting to Ksh.552,807,071 from the Fund.

ii) The Board owed the fund Ksh.54,135,686 in respect to Interest free long term loan granted in 1999 for construction of KSB headquarters.

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33. Prior year adjustments

(i) Court Cases

During the year two securities deposited of Kshs. 7,000,000 and Kshs. 90,366,398 held by the Judiciary and Co-operative bank respectively were paid out when the Board lost the two cases. The Board had disclosed contingent liability without providing for the same in the statement of performance. A further Kshs.7,978,572 relating Ndungu Gathinji case have been accrued awaiting approvals to release the funds.

(ii) Building

Building supervision fees of Kshs. 4,350,000 expenses in 2012/13 was capitalized to form part of building cost in accordance with IPSAS 17.

(iii) Operational expenses

Other operational expenses for the prior period adjusted through statement of changes in net assets amounted to Kshs. 201,448

| 34. Cash generated from operations | July 2014 | June 2013 |
|--|-------------------------|------------------|
| | Kshs'000 | Kshs '000 |
| Operating surplus | 65,200 | 99,257 |
| Add back depreciation | 32,598 | 19,567 |
| Less interest income | (19,794) | (34,348) |
| (Gain)/Loss realized on disposal of assets | 203 | (658) |
| Prior Year Adjustment | (93,440) | (7,756) |
| Changes in working capital | | |
| (Increase)/Decrease in Inventory | 281 | 806 |
| (Increase)/Decrease in Trade & other receivables | (23,637) | (6,135) |
| Increase in Trade & other payables | (8,430) | 8,291 |
| Decrease in short-term borrowings | <u>(69,525)</u> | <u>(78,967)</u> |
| | <u>(116,544)</u> | <u>72</u> |

35. Sugar Reforms Support Project Fund (SRSP)

The Board has a three year financing agreement with Delegation of European Union. Under the Agreement, Delegation of European Union will support reforms in the sugar industry by disbursing funds through or in collaboration with the Board to

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a tune of EUR 1,922,350 over a period of three years. The Board is implementing the final Programme Estimate PE3 running from 1st December, 2012 to 30th May 2014.

SRSP Fund Position as at 31st July 2014

| | July 2014 | June 2013 |
|---------------------------------------|----------------------|----------------------|
| | <u>Ksh '000'</u> | <u>Ksh '000'</u> |
| Total Grant Received | 194,132 | 194,132 |
| Interest earned from bank | 9 | |
| Unspent amount for PE1 refunded to EU | <u>140,287</u> | <u>140,287</u> |
| Net Grant | 53,853 | 53,844 |
| <u>Expenditures</u> | | |
| Cumulative Expenditure | 54,417 | 46,097 |
| Grant net of Expenditure | (564) | |
| Add back: Exchange gains | <u>33,399</u> | <u>31,845</u> |
| Total Fund | <u>32,834</u> | <u>39,593</u> |
| Represented by: | | |
| Bank balances | 32,502 | 40429 |
| Add Debtors | 332 | 16 |
| Less Payables | <u>0</u> | <u>(853)</u> |
| Total Asset | <u>32,834</u> | <u>39,593</u> |

The unspent funds under (PE1) EUR 1,005,644 (**Ksh. 140,287,338**) were refunded to European Union on 29th September, 2011 pending release of (PE2) funds. Similar refund of Euro 225,402 (Kshs. 26,464,110) was made on 22nd August 2014.

36. Change in Sugar Reforms Support Project Fund

| | July 2014 | June 2013 |
|-----------------------------|------------------|------------------|
| | <u>Kshs'000</u> | <u>Kshs'000</u> |
| Total fund balance 31.07.14 | 32,834 | 39,593 |
| Total fund balance 30.06.13 | <u>39,593</u> | <u>65,787</u> |
| Change during the period | <u>(6,758)</u> | <u>(26,194)</u> |

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| | July 2014 KSHs'000 | June 2013 KSHS'000 |
|--|-----------------------|-----------------------|
| 37. Acquisition of assets during the period | | |
| Additions during period per note 27 | 83,828 | 60,285 |
| Adjustment for consultancy fees paid in 2012/13 but capitalized in 2013/14 | <u>4,350</u> | <u>0</u> |
| Purchase of property, plant and equipment | <u>79,478</u> | <u>60,285</u> |

38. Contingent Liability

Currently Kenya Sugar board has two pending cases. The matters are in court pending hearing and judgement. (KSB Vs. Ndungu Gathinji and one other)


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.

| 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) |
|--|--|---|--|-----------------------------------|--|
| 1. | As similarly reported in the previous years, the property, plant and equipment balance of Kshs. 224,666,000 excludes an undetermined value of land in Athi River allocated to the Board on 18 th April, 1995. Although the management has made several attempts including paying, the government rates and rent, this has not been possible due to delays by the Ministry of Lands to issue title deed. Under the circumstances, the accuracy and completeness of the | Management is happy to report that the deed plan initially reported to be lost was finally retrieved within the lands office. All steps required to issue the title deed including paying government rent and rates have been done and management is awaiting title deed any time. Once the title deed is issued, management will move with speed to take possession of the land, value it and incorporate its value in the financial | Company secretary | Not Resolved | One year |

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| 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) |
|--|---|--|--|-----------------------------------|--|
| | carrying values of PPE balance Kshs. 224,666,000 could not be confirmed. | statement. | | | |
| 2. | Trade and other receivables balance of Kshs. 13,997,000 includes imprests and car loans owed by 3 former employees and which have been outstanding for a considerably long period of time. Although a provision for bad and doubtful debt has been provided and various efforts made by the management to pursue recovery including legal interventions, these have so far not been successful. Consequently, the recoverability of these debts appears doubtful and no explanation has been provided for failure to recover these debts before the former staff were released. | It is true trade and other receivables of Kshs, 13,997,000 includes imprests and car loans owed by 3 former employees of the board amounting to Kshs.2,627,867.75. As in your earlier observation, management provided evidence of steps taken to recover the outstanding debts. The bulk of the amount is owed by two former employees whom the board has sued to recover the debts. In the meantime efforts are being expended to aggressively pursue the debtors the result of which the board recovered Kshs. 1,000,000 in 2013. Further, another debtor who owes Kshs 198,622.20 has offered to pay Kshs.20,000 monthly till the debt is cleared. | Company secretary | Not Resolved | |


.....
R. MKOK, MBS
CHIEF EXECUTIVE OFFICER


.....
A. ONYANGO
ALTERNATE DIRECTOR