

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

THE NATIONAL ASSEMBLY
PAPERS LAID

REPORT 2019

TABLED BY: *Hadi Benjamin Wadhvani*
CLERK OF THE TABLE: *Majority Whip*

OF *Halima Ahmed*

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THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
STRATEGIC GRAIN RESERVE FUND**

**FOR THE YEAR
ENDED 30 JUNE 2018**

**STRATEGIC GRAIN RESERVE FUND
REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2018**

**VII. REPORT OF THE INDEPENDENT AUDITORS ON THE STRATEGIC FOOD
RESERVE FUND**

**STRATEGIC GRAIN RESERVE FUND
REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2018**

Board attendance

The Board held nine (9) both scheduled and special meetings in the year and there was quorum in all the meetings

VI. CORPORATE SOCIAL RESPONSIBILITY (CSR) STATEMENT

The strategic food reserve is sensitive to the community it operates in and therefore engages in SCR activities to boost the relationship between itself and the community. In the financial year 2016/17, it intervened in the market by purchasing maize at favorable prices to safeguard the farmers from exploitation by brokers. It also transferred maize from grain basket region to maize deficit areas to take care of the food needs of the residents. It also intervened in maize flour price stabilization by releasing its stock to the market when the maize flour price was rising to levels beyond the reach by the poor.

**STRATEGIC GRAIN RESERVE FUND
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V. CORPORATE GOVERNANCE STATEMENT

The Oversight Board

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

Size of the Oversight Board

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

Meetings of the Board

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

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

Disclosure of interest

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

Vacation of office

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

- a) At any time resign from office by notice in writing to Cabinet Secretary; or transferred from the participating ministry
- b) has been absent from three consecutive meetings of the Oversight Board without permission from the chairperson;
- c) is adjudged bankrupt or enters into a composition scheme or arrangement with his creditors;
- d) is convicted of an offence involving dishonesty or fraud;
- e) is convicted of a criminal offence and sentenced to imprisonment for a term exceeding six months;
- f) is incapacitated by prolonged physical or mental illness; or
- g) is otherwise unable or unfit to discharge his functions

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IV. PRINCIPAL SECRETARY STATEMENT

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

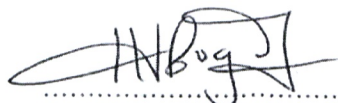
The history of maintaining National Strategic Grain Reserves, started from early 1970s when a prolonged drought which was compounded by a simultaneous world-wide cereal shortage led to prices rising to record levels. With limited availability and high prices, the donor community and governments were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

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

During the 2017/18 financial year, the Strategic Food Reserve procured maize and milk powder only despite of the expanded commodity component due to strained financial resources. However, the reserve anticipates to expand the commodity diversity in the reserve to address the diverse food preferences across the various communities. During the financial year, powder milk worth Ksh. 700 million was maintained in the reserve through selling and replenishment for quality sustainability throughout the year. The milk was also used to stabilize the milk prices in the country by reconstituting the powder milk during drought (deficit) periods and replenishing it during milk gluts. Approximately 3.8 million bags of maize were procured from local farmers and one million bags were imported during the year. million was also purchased from farmers at Ksh. 3,200 per bag. Other activities aided by the Fund during the year included the maize subsidy programme which was facilitated by the Strategic Food Reserve to avail maize to millers to address then escalating maize flour prices and maize deficit in the country.

On behalf of the Board I greatly acknowledge and appreciate every kind of support from the Government and other partners who enabled the Fund achieve its planned activities towards ensuring national food security the contribution of each member and stakeholder involved.

Finally, it is my pleasure to submit the annual report and financial statement of the Strategic Food Reserve Trust Fund for the year ended 30th June 2018 on behalf of the Strategic Food Reserve Oversight Board



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

**STRATEGIC GRAIN RESERVE FUND
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III. STATEMENT OF TRUSTEES' RESPONSIBILITIES


Section 81 of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act, require the Trustees to prepare financial statements in respect of the Strategic Grain Reserve Fund, which give a true and fair view of the state of affairs of the Strategic Grain Reserve Fund at the end of the financial year/period and the operating results of the Strategic Grain Reserve Fund for that year/period. The Trustees are also required to ensure that the Strategic Grain Reserve Fund keeps proper accounting records which disclose with reasonable accuracy the financial position of the entity. The Trustees are also responsible for safeguarding the assets of the Strategic Grain Reserve Fund.

The Trustees are responsible for the preparation and presentation of the Strategic Grain Reserve Fund's financial statements, which give a true and fair view of the state of affairs of the Strategic Grain Reserve Fund for and as at the end of the financial year (period) ended on June 30, 2018. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Kenya Citizens and Foreign Nationals Management Fund; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Trustees accept responsibility for the Strategic Grain Reserve Fund's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Trustees are of the opinion that the Strategic Grain Reserve Fund's financial statements give a true and fair view of the state of Kenya Citizens and Foreign Nationals Management Fund's transactions during the financial year ended June 30, 2018, and of the Strategic Grain Reserve Fund's financial position as at that date. The Trustees further confirm the completeness of the accounting records maintained for the entity, which have been relied upon in the preparation of the Strategic Grain Reserve Fund's financial statements as well as the adequacy of the systems of internal financial control.



Nothing has come to the attention of the Trustees to indicate that the Strategic Grain Reserve Fund will not remain a going concern for at least the next twelve months from the date of this statement.

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	<p>She is a management Consultant - BISCOMM CONSULTANTS. She holds Masters degree in Finance from Kenyatta University and Bachelor of Commerce (B.Com.), Accounting and Finance, from Strathmore University. She is a Certified Public Accountant and member of Institute of Public Accountants of Kenya</p>
<p>Ms. Susan Mukiri – SFR Board Member</p>	<p>Coordinator of Consortium of Cooperating Partners (Cocop). He has also worked as District Agriculture Officer, Ministry of Agriculture, Wajir and Mandera Districts, as Emergency Relief Operations Coordinator for Arid Lands Resource Management Project II (ALRMP II) and an Assistant Field Coordinator - Oxfam Quebec- Mandera District, Kenya. He holds Msc in Agriculture and Rural Development from Kenya Methodist University, and BSc. Horticulture, Hons. from Kenyatta University.</p>
<p>Abass Maalim Mohamed – SFR Board Member</p>	

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	<p>Boga has previously, held various administrative positions in JKUAT including Chairman of Botany Department (2002-2004), Director of Institute of Biotechnology Research (2005), Dean of Faculty of Science (2007) and Principal of JKUAT Taita Taveta Campus in Voi (2007 to 2012). From 2012-2016 he was the Principal of Taita Taveta University College.</p> <p>He has an extensive international and local network of scientific engagements and collaborations. He was a Board Member of the World Federation of Culture Collections (www.wfcc.org)(2010-2013). He was the Secretary of the African German Network of Excellence in Science (AGNES) (2013-2016), the Secretary (2002-2006) and later Chairman (2008-2010) of the Kenya German Scholars Association (KDSA)</p> <p>Boga has over 66 scientific publications in International Journals, has supervised over 14 PhD and 31 MSc students. He is an active researcher with active international collaborations. Has a strong track record of fundraising for research. He has wide experience in Management and strategic planning.</p>
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 <p>Dr. Noah Wekesa – Board Chairman</p>	<p>He is the chairperson - Strategic Food Reserve Trust Fund. Prior to the appointment he had served as a member of parliament for Kwanza constituency; as assistant minister of Agriculture and Livestock Development and as Cabinet Minister in the Ministries of Science and Technology, Ministry of Livestock and Fisheries and in the Ministry of Forestry and Wildlife.</p> <p>He holds a degree (Bachelor of Veterinary Medicine and Surgery (BVMS)) from Edinburgh University in Scotland, Royal (Dick) School of Veterinary Medicine.</p>
 <p>Mr. Gerald Masila – SFR Board Member</p>	<p>He is the Executive Director of EAGC. He is the former Managing Director of Kenya Wines Agencies Limited (KWAL) and the Kenya Planters Cooperation Union (KPCU). Previously he worked for British American Tobacco, New Kenya Cooperative Creameries (NKCC) and Acumen Business Consultants. He holds a Master of Science Degree in Agricultural Economics –Marketing Major and a Bachelor of Arts Degree both from Egerton University, Kenya</p>

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	<p>Disabled Persons of Kenya, Founder Member of Women Challenged to Challenge and also Founder member of Disability, Women Initiative and Development Strategies.</p> <p>She holds Masters of Science in Human Resource Management from Manchester University (UK) and Bachelor of Arts Degree in Humanities and Social Sciences from the University of Nairobi – Kenya.</p>
 <p>Dr. Eng. Karanja Kibicho – Principal Secretary – State Department of Interior</p>	<p>Dr. Eng. Karanja Kibicho (CBS) is the Principal Secretary State Department of Interior in the Ministry of Interior and Coordination of the National Government. Before the current appointment, he served as the Principal Secretary in the Ministry of Foreign Affairs and International Trade and also Permanent Secretary in the Ministry of Industrialization.</p> <p>He holds a Doctorate in Mechanical Engineering from the University of Cape Town, South Africa, a Masters of Science (MSc) degree in Mechanical Engineering and a Bachelor of Science (BSc) in Mechanical Engineering. Dr. Kibicho has taught in various institutions of higher learning in Kenya and outside the country. They include Jomo Kenyatta University of Agriculture and Technology (JKUAT) where he served as the Chairman and Senior Lecturer in the Department of Mechanical Engineering. He has served as an external examiner at the University of Dar es Salaam, visiting lecturer at the Central University of Technology, Free State, South Africa and a part-time Lecturer at the University of Cape Town.</p>
 <p>Ag. Principal Secretary, State Department for Crop Development</p>	<p>Principal Secretary, State Department of Agriculture Research, and Ag. Principal Secretary, State Department for Crop Development Ministry of Agriculture, Livestock, Fisheries and Irrigation</p> <p>Born 03.12.1967 in Kwale Kenya, Hamadi Boga was appointed Principal Secretary in the State Department of Agriculture Research in March 2018.</p> <p>Before that Hamadi Boga, was a Professor of Microbiology at Jomo Kenyatta University of Agriculture and Technology (JKUAT) (2007-2012) was the Acting Vice Chancellor of Taita Taveta University since 7th October 2016 to March 2018. He has a BSc in Botany and Zoology (First Class Honors) and MSc in Botany (Microbiology) from Kenyatta University in Kenya, PhD in Microbial Ecology and Microbiology from University of Konstanz, Germany and a Post-Doctoral Research stay at the Max Planck Institute for Terrestrial Microbiology in Marburg, Germany. He is also a Humboldt Fellow and was from 2010-2015 the Humboldt Ambassador Scientist for Kenya.</p>

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II. THE BOARD OF TRUSTEES



Dr. Kamau Thugge –Principal Secretary, The National Treasury

He holds MA and BA degrees in Economics (University of Nairobi). Dr. Thugge holds a Bachelor of Arts (Economics) from Colorado Collage, USA, Master in Economics from Johns Hopkins University, USA and a Doctor of Philosophy (PhD) in Economics from Johns Hopkins University, USA. He served as a Director of Kenya Reinsurance Corporation Ltd. He worked as a Senior Economic Advisor in the Ministry of Finance from the year 2010. He also worked at the International Monetary Fund (IMF) in various capacities for over 21 years in both the policy making and non-policy making Departments as Economist/Senior Economist and Deputy Division Chief. He served as Head of the Fiscal and Monetary Affairs Department, Treasury from 2004 to 2005, and the Economic Secretary and Head of Economic Affairs Department from 2005 to 2008. Dr. Thugge represented the Permanent Secretary, Finance on the Boards of the Central Bank of Kenya, Monetary Policy Committee of the Central Bank of Kenya, Kenya Revenue Authority and the Capital Markets Authorities. He is a career economist having served in various capacities in the Treasury and Central Bank. He has also been involved in several projects with the International Monetary Fund both within and abroad. He has been a Director of East African Development Bank since June 27, 2013. He serves as a Non-Executive Director of Kenya Airways Ltd. He served as a Director of The Kenya Power and Lighting Company Limited since August 2, 2013.



Josepheta Mukobe - Principal Secretary , Special Programmes

Josepheta Oyiela Mukobe is the Principal Secretary for the State Department of Special Programmes – Ministry of Devolution and Planning. Prior to this, she was the Principal Secretary for the State Department of Coordination – Ministry of Interior and Coordination of National Government and former Deputy Director Human Resource Management, Office of the Prime Minister, Ministry of State for Planning, National Development and Vision 2030. She has held other positions and sits in various Boards Committees. She has broad knowledge and experience in employment law, compensation, organizational planning and development, employee relations and Human Resource. She has been the Vice Chair of Kenya Society for Physically Disabled, The Secretary General, United

**STRATEGIC GRAIN RESERVE FUND
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e) Fiduciary oversight arrangements

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

(a) Strategic Grain Reserve Fund Headquarters

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

(b) Bankers

The central Bank of Kenya
Nairobi, Kenya

(c) Independent Auditors

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

(d) Principal Legal Advisor

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

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I. KEY ENTITY INFORMATION AND MANAGEMENT

a) Background information

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

b) Object and purpose of the Fund:

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

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

c) Key management of the reserve

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

d) Fiduciary management

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

- | | |
|-------------------------------|--|
| 1. Dr. Eng. Karanja Kibicho – | Principal Secretary - Interior |
| 2. Josepheta Mukobe - | Principal Secretary – Special Programmes |
| 3. Dr. Kamau Thugge – | Principal Secretary, The National Treasury |
| 4. Prof. Hamadi I. Boga – | Ag. Principal Secretary, State Department of Agriculture |
| 5. Dr. Noah Wekesa – | Board Chairman |
| 6. Gerald Masila – | Board Member |
| 7. Abass Maalim – | Board Member |
| 8. Susan Mukiri – | Board Member |

The Principal Secretary, State Department Agriculture was the accounting officer for the reserve during the financial year ended 30th June 2018.

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STRATEGIC GRAIN RESERVE FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2018**

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

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON STRATEGIC GRAIN RESERVE FUND FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of Strategic Grain Reserve Fund set out on pages 12 to 26, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015.

I do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1. Statement of Comparison of Budget and Actual Amounts

The Fund's management did not prepare and submit for audit the statement of comparison of budget and actual amounts for the year ended 30 June 2018. However, records available indicates that the Fund had budgeted to procure 2 million bags of local maize and procured 3.7 million bags of 90 kg at a cost of Kshs.11,282,483,469. It had no budget for maize imports.

A review of available records also indicate that the Fund had budgeted for 50 kg jute bags at a cost of Kshs.408 million, management fees to NCPB at Kshs.700 million, Board visits at Kshs.5 million and annual stock takes at Kshs.4 million. However, it is not clear how the budgeted amounts were arrived at as no basis was provided. Further, even for the budgeted items, no record was provided to indicate how the expenditure were incurred.

2. Revenue from Exchange Transactions

The statement of financial performance for the year ended 30 June 2018 reflects an amount of Kshs.20,353,837,593 under revenue from exchange transactions. This revenue relates to sale of maize by the Fund during the year. A review of available records indicate that the Fund sold 8,832,452 bags of 90 kg of maize in the year under review. It was noted that the price at which the maize was sold varied from one

Report of the Auditor-General on the Financial Statements of Strategic Grain Reserve Fund for the year ended 30 June 2018

depot to another and from one grade to the other. No reason was provided for the varied prices, which ranged from Kshs.1,245 to Kshs.2,300. It is not clear how the buyers of the maize were identified.

The audit also revealed that no local maize was sold, and all sales in the year were related to sale of imported maize. Records available indicate that the Fund bought 15,597,871 bags of imported maize and the closing stock amounted to 287,431 bags only as at 30 June 2018. It is not clear whether the remaining bags were sold thereafter as they could not be accounted for as at the time of the audit.

Consequently, the completeness and accuracy of the sales figure provided could not be ascertained.

3. Cost of Sales

3.1 Overstated Cost of Imported Maize

The statement of financial performance reflects an amount of Kshs.37,222,645,795 under cost of sales. This amount, as disclosed in Note 6 to the financial statements relates to the cost of stock of maize sold in the year. As disclosed in Note 6 to the financial statements, the Fund imported maize at a total cost of Kshs.34,822,028,282. This amount, however, differs with the amount of Kshs.31,288,225,350 reflected in the records maintained by the National Cereals and Produce Board (NCPB), by Kshs.3,533,802,932. No reconciliation or explanation was provided for the variance.

In addition, Note 6 reflects an amount of Kshs.3,061,708,813 as opening stock of maize in the year ended 30 June 2018. However, records available shows that only imported maize was sold and the closing stock does not comprise any of the old stock brought forward in the year. Further, payment vouchers totalling Kshs. 9,521,226,296 relating to procurement of imported maize were not provided for audit scrutiny.

Under the circumstances, the completeness and accuracy of the cost of sales figure of Kshs.37,222,645,795 could not be confirmed.

3.2 Missing Payment Vouchers for Local Suppliers of Maize

The cost of sales figure of Kshs.37,222,645,795 and as disclosed in Note 6 (i) to the financial statements includes an amount of Kshs.11,282,483,469 incurred on procurement of local maize. However, the Fund management did not provide for audit verification payment vouchers amounting to Kshs.1,660,487,233, in respect of the payments made to local farmers for supply of maize to various NCPB depots during the year under review. Although the management explained that these vouchers had been taken by the Ethics and Anti-Corruption Commission for investigations, it was not possible to confirm the propriety of the expenditure as tabulated below:

Name of Depot	Amount Kshs
Eldoret	1,264,342,807
Kisumu	51,276,040
Kitale	81,097,976
Bungoma	263,770,410
Total	1,660,487,233

Consequently, the validity, completeness and accuracy of the cost of sales of Kshs.37,222,645,795 disclosed in these financial statements could not be confirmed.

3.3 Procurement of Maize

3.3.1 Budget

During the year under review, the Fund had budgeted to purchase 2 million bags of local maize at a cost of 6 billion shillings. However, the fund procured 3.7 million bags of 90kgs local maize at a cost of Kshs.11,282,483,469, which resulted in a budget over run by Kshs.5.1 billion. In addition, the Fund procured maize from maize importers valued at Kshs.34,822,028,282 without any prior budget provision for the same.

3.3.2 Vetting of Farmers

In eleven sampled depots, the audit revealed that the forms used for vetting of farmers were similar. It was further observed that some of the forms had preprinted serial numbers while others were inserted by hand. In other cases, some forms required the signature of the name of the group, agricultural officer and the assistant chief while others required the signature of the assistant chief, ward administrator and agricultural officer. In addition, the forms had no section for evidence of size of land owned or leased by the farmers to show how much each farmer was capable of producing.

3.3.3 Procurement of Maize without Required Approval Documents

Out of the total maize procured of Kshs.11,282,483,469 from local farmers, it was observed that maize valued at Kshs.288,692,553 was purchased by the Fund before the farmers had obtained all the required approval documents. Some of the forms were not approved by the assistant chief, chief, ward administrator or agricultural officer, contrary to the guidelines issued by the NCPB Managing Director as detailed below:

Name of Depots	Amount Paid to Farmers Kshs
Kisumu	68,489,067
Mois Bridge	8,252,747
Kitale	7,327,278
Bungoma	4,679,029
Lugari	3,441,485
Name of Depots	Amount Paid to Farmers Kshs
Klpkaren Salient	841,012
Nakuru	180,837,355
Eldoret	14,824,380
Total	288,692,353

3.3.4 Farmers who Supplied Over 10,000 Bags of Maize

Examination of records maintained by NCPB in the eleven sampled depots, and a review of guidelines issued by the Ministry referenced MOA/LCD/9/12/8018 and dated 1st October 2017 on purchase of maize, did not reveal the maximum bags of maize to be purchased from an individual farmer. There was no requirement for the farmers to provide title deeds, lease agreement or size of the land under cultivation. Although there were no set maximum limits of maize delivery, the practicability of delivering 10,000 bags and above from a single farmer could not be verified given the average production per acre. The following farmers supplied more than 10,000 bags of 90 Kgs of maize. It was not possible to ascertain if these farmers owned land that could be able to produce more than 10,000 bags of maize.

Farmer Identity Number	Name of the Farmer	No. of Bags Delivered to NCPB	Value in Kshs.
Eldoret Depot			
F9252268	Joseph K Sang	11,051.00	18,495,838.00
F1223249	Simon Kipkosgei	26,319.00	46,093,552.00
Kisumu Depot			
F27142738	Celestine Chepchirchir	208,923.00	369,298,591.00
F4906065	Alice Wanjiku Githaiga	41,336.00	71,064,523.00
F13809852	Paul Kibichiy Biego	12,554.00	21,951,304.00
F13207544	Stephen Kiprob Maiyo	103,107.00	181,412,036.00
F7061349	John Tanu Kosgei	16,054.00	27,134,625.00
F22861976	Anthony Kipngetch Chebii	10,541.00	18,314,744.00
F1932302	Paul Kipyego Marus	15,567.00	27,323,420.00
F24922428	Caroline Chepchumba	113,967.00	190,658,982.00
F22835806	Richard Kiprotich Koech	12,961.00	21,580,065.00
F26975990	Rodney Kimutai	14,936.00	24,868,440.00
F1223249	Simon Kipkosgei Changwony	31,544.00	52,520,760.00
Mois Bridge			
F10033156	Bernard Mwangi Kimani	36,978.00	64,546,838.00
F23481131	Dancan Ndugu	21,600.00	38,136,016.00
F14462196	David Nderitu Gacau	26,488.00	45,913,827.00
F20537633	Egline Chepchirchir	15,374.00	26,295,996.00
F4542250	Elijah Cheronon Chepkerui	13,530.00	23,352,112.00
F21421120	Elijah Rotich	12,676.00	22,425,040.00
F20690680	Francis Ngoro	14,509.00	25,495,795.00
F22754495	Isaac Kipruto	14,509.00	25,495,795.00
F13415938	James Karanja Kamau	11,708.00	20,423,216.00
F23805764	Joel Nganga Mathenge	21,208.00	37,106,395.00
F13146766	Joseph Komen Biwot	12,661.00	22,487,202.00
Kitale			

Farmer Identity Number	Name of the Farmer	No. of Bags Delivered to NCPB	Value in Kshs.
F4724222	Benson Giteri Muchumba	11,459.00	20,340,664.00
Nakuru			
F11843743	Christine Towet	13,224.00	22,018,359.00
F12915985	Daniel Ngetich	23,746.00	39,534,123.00
F21475430	Enock Momany	11,959.00	20,637,995.00
F22479844	Evans Amdang	13,645.00	22,719,124.00
F1340120	Grace Maguta	13,378.00	22,274,203.00
F13069795	Isaac Towet	15,795.00	27,749,518.00
F0462559	Jane Gitau	11,969.00	20,391,438.00
F3552359	Lawrence Mungai	13,950.00	23,941,884.00
F0729081	Veronica Gichui	11,437.00	20,019,717.00

3.3.5 Out-sourcing of Procurement Function

During the year under review, the Fund procured imported maize worth Kshs.34,822,028,282 from various importers. However, the function of receiving and inspection of the maize was done by the NCPB. There was no evidence that the Accounting Officer responsible for the Fund and NCPB entered into an agreement on the performance of its procurement function of receipt, inspection, and recording to ensure the right quality and quantity were received, and to ensure adherence to Public Procurement and Disposal Act, 2015 on receipt and inspection of procured maize. This resulted in payment of maize suppliers without the certificate of inspection and acceptance certificate or report.

In the absence of any legal agreement, it was not possible to confirm that the quality and quantity of maize received by NCPB was as per the specification of the Ministry.

4. Other Expenditure

The statement of financial performance reflects an amount of Kshs.6,780,698,646 under other expenditure and as disclosed in Note 7 to the financial statements, the expenditure relates to transport and handling costs, storage and fumigation, sales commissions, drying charges, purchase commissions, gunny bags and import costs. Included in the other expenditure figure of Kshs.6,780,698,646 is an amount of Kshs.3,904,916,013 incurred on storage and fumigation costs, which is an increase of 25 times over the previous year amount of Kshs.153,531,615. No explanation was provided for such a huge increase in the expenditure over the previous year.

In addition, included in the expenditure is an amount of Kshs.436,244,000 paid to both staff of the parent Ministry and suppliers that was not supported with documentary evidence. Further, the cash book reflects payments for travelling and accommodation, board expense, repair of motor vehicles and payment to the taskforce members all totalling Kshs.41,831,286, which have not been included in these financial statements. no explanation was provided for the exclusion of these payments in the financial statements.

Consequently, the completeness and accuracy of the other expenditure figure of Kshs.6,780,698,646 could not be ascertained.

5. Cash and Cash Equivalents

The statement of financial position as at 30 June 2018 and as disclosed in Note 8 to the financial statements reflects a balance of Kshs. 3,901,065 under cash and cash equivalents. However, a review of the expenditure records revealed payments amounting to Kshs.1,346,079,257 that had not been posted in the cash book. In addition, there were no bank reconciliations during the year under review. Further, as was reported in the previous year, the opening cash balances had been overstated with an amount of Kshs.95,881,170.

Consequently, the completeness and accuracy of cash and cash equivalents balance as at 30 June 2018 could not be confirmed.

6. Inventories

The statement of financial position reflects a balance of Kshs.12,643,574,769 under inventories and as disclosed under Note 9 to the financial statements the inventories comprise of maize stock as well as powdered milk. The following unsatisfactory matters were observed:

6.1 Condemned Maize

Disclosed in Note 6 to the financial statements is an amount of Kshs.11,282,483,469 under closing stock of local maize. However, this includes maize valued at Kshs.342,482,895 stored in various NCPB depots which was found to contain high levels of aflatoxin by the Ministry of Health and are therefore not fit for human consumption as analyzed below:

NCPB Depot	Quantity in Bags (90 Kgs)	Value Kshs.
Machakos	10,710	20,809,530
Nairobi	5,427	10,544,661
Meru	14,460	28,095,780
Isiolo	11,663	22,661,209
Migori	1,504	2,922,272
Nakuru	54,597	106,081,971
Lugari	26,264	51,030,952
Kitale	51,640	100,336,520
Total	176,265	342,482,895

In addition, the opening stock of Kshs.3,061,708,813 has not been accounted for in these financial statements. It is not clear how the amount was written off from the records of the Fund.

6.2 Un Accounted for Bags of Maize

The statement of financial position's inventories figure of Kshs.12,643,574,769 includes, as disclosed in Note 6 to the financial statements, 3,913,098 bags of maize comprising of 287,431 bags and 3,625,667 bags of imported maize and local maize,

respectively. However, this differs with the store records maintained by NCPB, which shows 6,521,481 bags of maize as at year end.

The figure of 3,913,098 bags of maize also differs with the record of maize procured during the year, where it is indicated that none of the locally procured maize was sold but out of the imported bags of maize, which totaled, 15,597,871 bags, only 8,832,452 bags were sold, leaving a balance of 6,765,419 bags unsold. In addition, Note 6 to the financial statements shows that only 287,431 bags of the imported maize remained unsold, leaving a balance of 6,477,988 unaccounted for.

Further, the stores records provided by the NCPB shows that the Board had opening stock of 1,358,678 bags, and procured 22,174,062 bags and at the same time sold 15,898,455 bags and had closing stock of 6,521,481 bags of maize. These figures were not reconciled with the figure of sales and closing stock.

Under the circumstances, the accuracy, completeness and existence of the stock of maize balance of Kshs.11,943,574,769 as at 30 June 2018 could not be confirmed.

6.3 Maize in Silos

According to the oversight board minutes of 6 April 2018, Minute No. 4/04/2018, it was indicated that it is not suitable for maize to be stored for more than six months in the silos to avoid deterioration and loss in value. It was, however, observed that as at 30 June 2018, 2,098,516 bags of 90kg valued Kshs.4,077,416,588 were stored in silos in various NCPB depots. The maize had been held in the stores for more than six months.

The fund had a budget provision for 2017/18 financial year of Kshs.408,000,000 for purchase of 2,718,000 jute bags. It was not clear why the maize was not bagged and transferred to the conventional stores as shown below:

Name Of The Depots	Quantity – Bags
Nakuru	394,978 * 90kg
Eldoret	544,555 *90 kg
Moi's bridge	950,407 *90kg
Kisumu	205,876 *90kg
Total	2,098,516 *90kg

In addition, a visit to Shimanzi and Changamwe depots revealed that there were 200,262 bags of maize which were stored in polypropylene bags. The maize is likely to deteriorate in quality due to high level of humidity in the Coast region.

6.4 Powdered Milk

Disclosed in Note 9 to the financial statements is powdered milk stock from Kenya Creameries Cooperative (KCC) amounting to Kshs.700,000,000, that has been outstanding in the records for over two years. No documentary evidence was however produced to confirm its existence as at year end or its suitability for human

consumption. Under the circumstances, the existence of the powered milk stock could not be confirmed.

6.5 Annual Stocktaking and Maintenance of Stock Records

It was noted that Article 8 of the 5th agreement signed on 10 August 2016 between Strategic Grain Reserve Fund and NCPB stated that the Principal and Agency should conduct joint annual stocktaking to establish the stocks levels. Further, examination of the Fund's 2017/2018 budget shows that there was a budget provision of Kshs.2 million for an independent stock taking through a consultant. However contrary to the requirements of the Agreement, no report of joint annual physical stocktaking was provided for audit verification.

In addition, the Agent is supposed to keep separate records at all times for stock of the Principal held in its stores. The records are expected to have the date of purchase, general quality condition and other relevant information for continuous assessment of the Principal's stock position. In the sample of twelve depots visited, there was no evidence that the Agent, NCPB had maintained separate records, contrary to the agreement. In the absence of the reports, it was not possible to confirm if annual joint stocktaking was done as required by the agency agreement.

7. Receivables

The statement of financial position reflects receivables balance of Kshs.18,160,523,581 as at 30 June 2018. As disclosed under Note 10 to the financial statements, the amount includes Kshs.6,865,220,613 brought forward from the previous year and due from the State Department for Special Programmes. It was however indicated in the previous year that an amount of Kshs.5,849,677,056 was not supported by documentary evidence. In addition, the debtors' ledger for State Department of Special Programmes maintained by the National Cereals and Produce Board reflected a balance of Kshs.90,427,573, resulting in a variance of Kshs.6,774,793,040 that was not reconciled or explained.

In addition, Note 10 to the financial statements discloses receivables from exchange transaction in respect of subsidy component on imported maize amounting to Kshs.11,295,302,968. However, it is not clear how the amount was arrived at as the accounting records presented were not supported with documentary evidence to show that the receivables existed as of 30 June 2018.

Under the circumstances, the validity and accuracy of the receivables balance of Kshs.18,160,523,581 could not be confirmed.

8. Trade and Other Payables from Exchange Transactions

The statement of financial position reflects trade and other payables from exchange transactions balance of Kshs.13,181,494,364. The amounts include VAT payable amounting to Kshs.400,295,571, other creditors of Kshs.1,138,494,057 and prior year adjustments of Kshs.1,228,212,674 that were not supported with documentary

evidence. It was observed that some of the creditors balance were contra to receivables.

In the absence of supporting documentations, the completeness and accuracy of trade and other payables from exchange transactions balance could not be confirmed.

9. Reserves

The statement of financial position also reflects a balance of Kshs.64,874,935,811 under reserves. This is an increase from last year's balance of Kshs.36,593,162,751 by Kshs.28,281,773,060. The increase was attributed to government exchequer releases of Kshs.9,994,000,000 and proceeds from sale of maize Kshs.18,287,773,060. However, the amount of Kshs.18,287,773,060 in respect of proceeds from sale of maize was double counted as it is part of the sales figure of Kshs.20,353,837,593. In addition, the exchequer release of Kshs.9,994,000,000 was to procure maize and therefore should have been accounted for under revenue from non-exchange transactions.

Further, the reserves balance brought forward from previous years were not supported either with documentary evidence or any corresponding assets. Consequently, the reserves balance reported as at 30 June 2018 could not be confirmed.

10. Differences Between the Trial Balance and Supporting Schedules Balances

The trial balance figures differed with the figures reflected in schedules presented for audit as detailed below:

Component	Amount in Trial Balance – Kshs	Amount in Schedule Kshs	Difference Kshs
Drying charges	881,220,177	109,978,618.11	771,241,559
Purchases commission	109,978,619	492,671,106.53	(382,692,487)
accumulated loss as at 1st July	23,598,923,911	47,248,430,759	(23,649,506,848)

Under the circumstance, the accuracy and completeness of the financial statements presented for audit could not be ascertained.

11. Presentation of Financial Statements

11.1 Title of the Fund on the Financial Statements

A review of the financial statements presented for audit by the Fund revealed that although the Legal Notice No.15 of February 2015 created Strategic Food Reserve Trust Fund, the financial statements title reads Strategic Grain Reserve Fund on the cover page.

11.2 Statement of Trustees Responsibilities

Paragraph 3 of the statement of trustee responsibilities, states that the financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) while the cover page shows that the financial statements have been prepared in accordance with IPSAS accrual.

11.3 Statement of Comparison of Budget and Actual Amounts

According to the guidelines issued by the Public Sector Accounting Standards Board on the revised IPSAS Accrual template dated 30 June 2017, the statement of comparison of budget and actuals should form part of the financial statements submitted for audit. However, the financial statements submitted for audit did not include the statement of comparison of budget and actual amounts.

11.4 Principal Secretary Statement

The statement by the Principal Secretary highlighted various key activities of the Fund during the year under review which included the purchase of 3.8 million bags of local maize and one million bags of imported maize. This differs with Note 6 to the financial statements that reflect that 3.6 million bags of local maize were purchased at a cost of 11.2 billion while 9.7 million bags of maize were imported at a total cost of 34.8 billion. Other available records indicate an amount of 15.6 million bags were imported and 3.7 million bags were bought from local farmers. Consequently, the statement is misleading.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

I do not express a conclusion on the effectiveness of internal controls, risk management and governance as required by Section 7(1) (a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, management is responsible for assessing the ability of Strategic Grain Reserve Fund to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the Strategic Grain Reserve Fund financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, my responsibility is to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them, and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution. I also consider internal control, risk management and governance processes and systems in order to give an assurance on the

effectiveness of internal controls, risk management and governance in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. However, because of the matters described under Conclusions on Lawfulness and Effectiveness in Use of Public Resources, and Internal Controls, Risk Management and Governance sections of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

I am independent of Strategic Grain Reserve Fund in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

14 June 2019

**STRATEGIC GRAIN RESERVE FUND
REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2018**

VIII. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2018

	Note	2017/2018 Kshs	2016-2017 Kshs
Revenue from exchange transactions			
Sales from Maize	5	20,353,837,593	10,159,520,003
		<u>20,353,837,593</u>	<u>10,159,520,003</u>
Total revenue		<u>20,353,837,593</u>	<u>10,159,520,003</u>
Cost of Sales	6	37,222,645,795	13,680,567,842
Other expenditures	7	6,780,698,646	2,403,230,093
		<u>44,003,344,441</u>	<u>16,083,797,935</u>
(Deficit) before tax		<u>-23,649,506,848</u>	<u>-5,924,277,932</u>
(Deficit)for the period		<u>-23,649,506,848</u>	<u>-5,924,277,932</u>

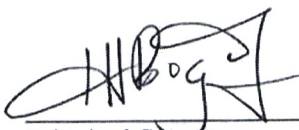
The notes set out on pages 16 to 26 form an integral part of these Financial Statements

**STRATEGIC GRAIN RESERVE FUND
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FOR THE FINANCIAL YEAR ENDED JUNE 30, 2018**

IX. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

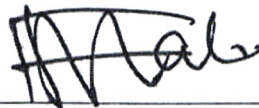
	Note	2017/2018 Kshs	2016-2017 Kshs
Assets			
Current assets			
Cash and cash equivalents	8	3,901,065	4,729,514,568
Inventories	9	12,643,574,769	3,761,708,813
Receivables	10	18,160,523,581	6,865,220,613
		30,807,999,415	15,356,443,994
Non-current assets			
			-
Total assets		30,807,999,415	15,356,443,994
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	11	13,181,494,364	2,362,205,154
Non-current liabilities			
		13,181,494,364	2,362,205,154
Total liabilities		13,181,494,364	2,362,205,154
Net assets		17,626,505,052	12,994,238,840
Reserves		64,874,935,811	36,593,162,751
Accumulated Deficit		(47,248,430,759)	(23,598,923,911)
		17,626,505,052	12,994,238,840

The Financial Statements set out on pages 12 to 15 were signed on behalf of the Fund by:



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

Date: 28/9/18



Principal Accounts Controller
Name: **Francis M. Makumi**
ICPAK Member Number: 6338

Date: 28/9/18

**STRATEGIC GRAIN RESERVE FUND
REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2018**

X. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2018

	Accumulated Capital Reserves Kshs	Accumulated surplus Kshs	Total Kshs
Balance as at 1 July 2016	32,076,431,800	(17,674,645,979)	14,401,785,821
Surplus/(deficit) for the period		(5,924,277,932)	(3,748,576,470)
Grants received during the year	4,516,730,951	-	1,426,996,818
Balance as at 30 JUNE 2017	36,593,162,751	(23,598,923,911)	12,080,206,169
Surplus/(deficit) for the period		(23,649,506,848)	(23,649,506,848)
Proceeds from Sale of imported Maize	18,287,773,060		
Transfers to Reserves	9,994,000,000	-	9,994,000,000
Balance as at 30 JUNE 2018	64,874,935,811	(47,248,430,759)	-661,268,008

**STRATEGIC GRAIN RESERVE FUND
REPORTS AND FINANCIAL STATEMENTS
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XI. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018

	Note	2017/2018 Kshs	2016-2017 Kshs
Cash flows from operating activities			
Net cash flows from operating activities	13	-33,007,386,562	-2,375,999,374
Cash flows from investing activities			
Net cash flows used in investing activities		18,287,773,060	
		18,287,773,060	
Cash flows from financing activities			
Government Grants received during the year	12	9,994,000,000	4,516,730,951
Net cash flows used in financing activities		4,516,730,951	28,281,773,060
Net increase/(decrease)in cash and cash equivalents		2,140,731,577	-4,725,613,502
Cash and cash equivalents at 1 JULY		4,729,514,568	2,588,782,991
Cash and cash equivalents at 30 JUNE 2017		3,901,066	4,729,514,568

**STRATEGIC GRAIN RESERVE FUND
REPORTS AND FINANCIAL STATEMENTS
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XII. NOTES TO THE FINANCIAL STATEMENTS

1. General information

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

2. Statement of compliance and basis of preparation

The entity's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the entity and all values are rounded to the nearest one Shilling. The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis.

3. ADOPTION OF NEW AND REVISED STANDARDS

i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2018

Standard	Impact
IPSAS 33: First time adoption of Accrual Basis IPSAS	The entity adopted IPSAS in the year ended 30 June 2014 and therefore provisions of first time adoption of accrual basis does not apply to the entity.
IPSAS 34: Separate Financial Statements	The entity does not have any subsidiaries , joint ventures or investments and therefore the standard does not apply

**STRATEGIC GRAIN RESERVE FUND
REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2018**

Standard	Impact
IPSAS 35: Consolidated Financial Statements	The entity does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.
IPSAS 36: Investments in Associates and Joint Ventures	The entity does not have investments in associates or joint ventures.
IPSAS 37: Joint Arrangements	The entity has an interest in arrangements with the National Cereals and Produce Board as elaborated in the Agency Agreement.
IPSAS 38: Disclosure of Interests in Other Entities	The entity does not have an interest in other entities and therefore the standard does not apply.

ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018

IPSAS 40: Public Sector Combinations	Applicable: 1st January 2019: The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non exchange transactions which are covered purely under Public Sector combinations as amalgamations.
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i. Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2018.

**STRATEGIC GRAIN RESERVE FUND
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NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Summary of significant accounting policies

a) Revenue recognition

i) Revenue from non-exchange transactions

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably.

Sale of goods

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

b) Budget information

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the entity. 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) 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 Entity determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and directly attributable transaction costs.

d) Inventories

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

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

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NOTES TO THE FINANCIAL STATEMENTS (continued)

Summary of significant accounting policies (continued)

(d) Inventories (continued)

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 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.

e) Provisions

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

Where the Entity 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 Entity 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 Entity 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.

**STRATEGIC GRAIN RESERVE FUND
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NOTES TO THE FINANCIAL STATEMENTS (continued)

f) Nature and purpose of reserves

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

g) Changes in accounting policies and estimates

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

h) Related parties

The Entity 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 Trustees and Food Management Unit (FMU).

j) 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- (CBK) at the end of the financial year.

k) Comparative figures

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

l) Significant judgments and sources of estimation uncertainty

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

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NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Summary of significant accounting policies (continued)

q) Significant judgments and sources of estimation uncertainty

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 Entity 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 beyond the control of the Entity. Such changes are reflected in the assumptions when they occur.

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:

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

m) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2017.

**STRATEGIC GRAIN RESERVE FUND
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NOTES TO THE FINANCIAL STATEMENTS (continued)

5. Sale of Maize

	2017/2018 Shs	2017 Shs
Sale of Maize --90kg bags	20,353,837,593	10,159,520,003
	20,353,837,593	10,159,520,003

6. Cost of Sales (Maize &gunny bags)

	2017/2018 Shs	2017 Shs
Balance b/d	3,061,708,813	6,389,706,239
Add: purchases note : (I & ii)	46,104,511,751	10,352,570,416
	49,166,220,564	16,742,276,655
Less: Closing stock (iii)	11,943,574,769	3,061,708,813
Cost of sales	37,222,645,795	13,680,567,842

Note: Purchases

(i) Maize- local maize	Value Kshs. 11,282,483,469
(ii) Maize - imported	34,822,028,282
	<u>46,104,511,751</u>
(iii) Closing stock	Value Kshs.
Imported Maize X 90kgs 287,431	661,091,300
Local White Maize X 90kgs 3,625,667	11,282,483,469
	<u>11,943,574,769</u>

**STRATEGIC GRAIN RESERVE FUND
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NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Expenses

	2017/2018	2017
	Shs	Shs
Transport cost& handling cost to other depots	427,489,625	533,527,249
Storage and fumigation	3,904,916,013	153,531,615
Handling costs on sales & commission on sales	253,805,744	1,149,921,718
Drying charges	881,220,177	-
Purchase commission & handling costs on purchases	109,978,618	164,789,110
Gunny bags	492,671,107	401,460,400
Import Costs	710,617,363	
Total expenses	6,780,698,646	1,849,608,068

8. Detailed analysis of the cash and cash equivalents

		2017/2018	2016-2017
Financial institution	Account number	KShs	KShs
Central Bank of Kenya	1000217189	3,901,065	4,729,514,568
Total		3,901,065	4,729,514,568

9. Inventories

	2017/2018	2017
	Shs	Shs
Bags of maize	11,943,574,769	2,717,570,413
Gunny bags	-	344,138,400
Powdered Milk - KCC	700,000,000	700,000,000
Total inventories	12,643,574,769	3,761,708,813

10. Receivables from exchange transactions

	2017/2018	2017
Current receivables	Shs	Shs
Debtors - State department for Special Programmes	6,865,220,613	6,865,220,613
Subsidy component on imported maize (below)	11,295,302,968	
Total current receivables	18,160,523,581	6,865,220,613

**STRATEGIC GRAIN RESERVE FUND
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NOTES TO THE FINANCIAL STATEMENTS (continued)

Subsidy component on imported maize receivable

Purchase price of imported maize 10,536,157 X 90kg bags		34,822,028,282
Add:		
Handling costs on sales & commission on sales	881,220,177	
Purchase commission & handling costs on purchases - Imported Maize	30,358,725	
Transport cost& handling cost - Imported Maize	3,904,916,013	
Import Costs	710,617,363	
		<u>5,527,112,279</u>
Less:		
Sales Proceeds	20,353,837,593	
Exchequer receipts-Subsidy component funded by Treasury	8,700,000,000	29,053,837,593
Amount of Subsidy component receivable		<u>11,295,302,968</u>

11. Trade and other payables from exchange transactions

	2017/2018	2016/2017
	Shs	Shs
Balance b/d	2,362,205,154	1,807,680,657
Storage and fumigation	218,798,055	132,354,840.60
16% VAT	35,007,689	21,176,774.50
Stock transport costs& handling expenses - Local Maize	421,360,741	448,162,889.00
16% VAT	6,128,884	85,364,360.00
Stock transport costs& handling expenses - Imported Maize	3,680,978,948	993,072,396.00
16% VAT	223,937,065	156,849,322.00
Sales commission and handling costs to other depots	761,167,709	
16% VAT	120,052,468	
Drying charges	94,809,154	144,215,065.62
16% VAT	15,169,465	20,574,044.81
Prior period adjustments	(1,228,212,674)	
Paid during the year	(860,733,898)	(1,447,245,195.22)
Payment for Transport	(277,760,159)	
Difference in Sales and Remittances (20,353,837,593-18,287,773,060)	(2,066,064,523)	
Total trade payables	<u>4,710,132,546</u>	<u>2,362,205,154</u>

**STRATEGIC GRAIN RESERVE FUND
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Total trade payables	4,710,132,546	2,362,205,154
Unpaid Local SFR Maize farmers and other Purchase services	3,406,940,258	
Sales proceeds used for purchase of maize	(908,200,000)	
Total payables to NCPB	7,208,872,804	
<u>Other Payables</u>		
Pending SFR Maize Subsidy bills	5,972,621,560	
Total Trade and Other Payables	13,181,494,364	2,362,205,154

12. Government Grants

		2017/2018	2016-2017
		KShs	KShs
1		9,994,000,000	4,516,730,951
		9,994,000,000	4,516,730,951

13. Cash generated from operations

	2017/2018	2017
	Shs	Shs
Surplus for the year before tax	(23,649,506,848).	(5,924,277,932)
Adjusted for:		
(Increase) receivables	(11,295,302,968)	165,756,635
(Increase) in inventories	(8,881,865,956)	2,827,997,426
Increase/(Decrease) in payables	10,819,289,210	554,524,497
Net cash flows from operating activities	(33,007,386,562)	1,315,478,335

14. Events after the reporting period

There are no material events after the reporting date.

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15. Trial balance for the period ended 30th June 2018

	Debit		Credit	
	2017/2018	2016-2017	2017/2018	2016-2017
	Kshs.	Kshs.	Kshs.	Kshs.
Sales			20,353,837,593	10,159,520,003
Cost of goods sold	37,222,645,795	13,680,567,842		
Storage and fumigation	218,798,055	132,354,841		
16% VAT	35,007,689	21,176,774		
Stock transport costs & relocation expenses	421,360,741	448,162,889		
16% VAT	6,128,884	85,364,360		
Sales commission and handling	3,680,978,948	993,072,396		
16% VAT	223,937,065	156,849,322		
Drying charges	761,167,709	-		
16% VAT	120,052,468	--		
Purchases commission	94,809,154	144,215,066		
16% VAT	15,169,465	20,574,045		
Import Costs	710,617,363			
Stocks	12,643,574,769	3,761,708,813		
Bank	3,901,065	4,729,514,568		
Accounts receivable	18,160,523,581	6,865,220,613		
Gunny bags	-	401,460,400		
Accounts Payable			13,181,494,364	2,362,205,154
Accumulated Funding			64,874,935,811	36,593,162,751
Accumulated Loss as at 1st July 2016	23,598,923,911	17,674,645,979		
Total	98,410,267,768	49,114,887,907	98,410,267,768	49,114,887,908

**STRATEGIC GRAIN RESERVE FUND
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III. 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 for 2015/2016 FY

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Timeframe:
437	<p>FINANCIAL PERFORMANCE</p> <p>As previously reported, the Fund recorded a deficit of Kshs.4,809,971,427 (2014/2015 – Kshs.1,195,159,835) in 2015/2016. However, the comparative figure of Kshs.1,195,159,835 (2014/2015) reflected in the statement of financial performance differs with amount of Ksh.1,284,297,766 reflected in the audited financial statements for 2014/2015. no explanation has been given for the variance. The continued loss-making trend has been attributed to the multiplicity of expenses including costs of acquisition of maize, gunny bags, storage, fumigation, handling costs, transport costs, of acquisition fees and commissions charged by National cereals and Produce Board (NCPB) as</p>	<p>FINANCIAL PERFORMANCE</p> <p>It is true that the comparative figure of Kshs. 1,195,159,835 (2014/2015) reflected in the financial performance differs with the amount of Kshs. 1,284,297,766 reflected in the audited financial statements for 2014/2015 and that the accumulated deficit brought forward from 2014/2015 of Kshs. 12,864,674,552 differs with the amount of Kshs. 12,953,812,480 reflected in the audited financial statements for 2014/2015 both with a resultant difference of Kshs. 89,137,928. This was occasioned by the unbalanced statement of financial position for the year 2014/2015 which reflected net assets of Kshs. 18,025,598,611 and differing net reserves of Kshs. 17,936,460,683 with a resultant difference of Kshs. 89,137,928. This error was corrected in the 2015/2016 financial statements.</p> <p>It is also true that the Fund shows an accumulated deficit of Kshs.17,674,645,979.00 due which is attributed to the multiplicity of expenses including cost of acquisition of maize and gunny bags, storage and fumigation, agency</p>	HAU	Resolved	Resolved

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Timeframe:
	<p>management fees on behalf of the Ministry over the years. This is an indication of existence of a material uncertainty that casts significant doubts about the ability of the Fund to continue as a going concern.</p> <p>In addition, the accumulated deficit of Kshs.17,674,645,979 as at 30 June 2016 reflected in the statement of financial position includes accumulated deficit brought forward from 2014/2015 of Kshs.12,864,674,552 which differs with the amount of Kshs.12,953,812,480 reflected in the audited financial statements for the year ended 30 June 2015. the resultant difference of Kshs.89,137,928 between the two sets of records has not been reconciled.</p>	<p>fees and commission charged by National Cereals and Produce Board (NCPB). The deficit is as a result of buying the maize at higher costs and selling at subsidized prices during the period of short supply of maize in the country.</p> <p>The government reviewed the Agency Agreement with National Cereals and Produce Board (NCPB) in order to reduce the multiplicity of the expenses charged by the NCPB.</p> <p>To further streamline the management of the Fund, the Government established the Strategic Food Reserve Fund Oversight Board through Legal Notice No. 15 of 2015 to oversee the Strategic Food Reserve Fund.</p>			
438	<p>CASH AND CASH EQUIVALENTS</p> <p>The statement of financial position reflects a cash and cash equivalents balance of Kshs.</p>	<p>CASH AND CASH EQUIVALENTS</p> <p>It is true that the statement of financial position reflects a cash and cash equivalents balance of Kshs. 2,588,782,991 as at 30 June</p>	HAU	Resolved	Resolved

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Timeframe:
	<p>2,588,782,991 as at 30 June 2016, which differs with the cash book balance of Kshs. 2,492,901,822 by Kshs. 95,881,169. No reconciliation has been provided for the difference.</p> <p>In addition, a board of survey report has not been provided to support the cash and cash equivalents as at 30 June 2016. Consequently, the completeness and accuracy of the cash equivalents balance of Kshs.2,588,782,991 reflected in the financial statements cannot be confirmed.</p> <p>Further, a review of the cash book revealed a payment of Kshs.6,000,000 made to a local freight firm vide payment voucher number 001471 dated 22.01.2016 which was not supported with documentary evidence. No</p>	<p>2016, which differs with the cash book balance of Kshs. 2,492,901,822 by Kshs. 95,881,169.</p> <p>A bank reconciliation statement has and a board of survey report has been provided for audit review.</p> <p>Payment of Kshs. 6,000,000 made to a local freight firm was made at National Cereals and Produce Board and does not appear in the Strategic Food Reserve Cash Book. We however note that payment voucher number 54A4072314 through cheque number 001471 was paid to M/S Mitchel Cotts Freight Kenya Limited on 21st January 2016 for gunny bags supplied as per the NCPB Credit Purchase Advice No. 14A4023820 and 14A4024119 of 36,300 pieces. The supplier M/S Blue Horizon Properties Limited did a request for partial payment of Kshs. 6,000,000.00 (Six Million) and the balance to be paid to their bank account through their letter dated 14th December 2015.</p>			

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Timeframe:
	<p>details have been provided to explain the nature and purpose of the payment.</p> <p>Consequently, the propriety and authenticity of the payment cannot be confirmed.</p>				
439	<p>INVENTORIES</p> <p>(I) Obsolete and Unfit Stock of Maize</p> <p>Review of quality assurance reports for 2015/2016 maintained by National Cereals and Produce Board, the custodian of the Strategic Grain Reserve on behalf of the Ministry, indicates that Celphos, the Board's preferred fumigation chemical has failed tokill weevils. Information available further indicates that although most stations (depots) had requested for a change of</p>	<p>INVENTORIES</p> <p>(i) Obsolete and Unfit Stock of Maize</p> <p>Historical background Most of the maize affected with high insect damage are in Lake/Western Region and were purchased during 2007/2008 season and transferred to the affected depots during the 2008/2009 season, hence have been held in NCPB stores for a period of over 7 years.</p> <p>During the long storage period, the stocks have been continuously exposed to repeated infestation. The problem of pest infestation was aggravated by the Erad court case where all the Board vehicles were being targeted by auctioneers and no fumigation was carried for the period the orders to auction NCPB Boards assets were active in 2013.</p> <p>When the issue of high pest infestation was raised, NCPB management carried out</p>	HAU	Resolved	Resolved

STRATEGIC GRAIN RESERVE FUND
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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Timeframe:
	<p>chemical the Board has not come up with an alternative consequently. 754,015 bags of maize valued at Kshs.1,772,055,670 were found to have been damaged beyond the 25% acceptable limit and were not fit for human consumption. No efforts appear to have been made to improve the grain storage. Furthermore, no adjustments have been made in these financial statements to account for the obsolete stock.</p> <p>(ii) Unsupported Balance</p> <p>The Statement of financial position reflects inventories balance of Ksh.6,589,706,239 which according to note 7 comprises of stocks of maize</p>	<p>quality inspections in the affected region in February 2011. The findings were as follows.</p> <ul style="list-style-type: none"> • The extent of insect damage was mostly below 10% and was concentrated on the bags at the periphery of the stacks. • The high insect damaged was caused by: <ol style="list-style-type: none"> i) Prolonged storage of maize dating to 2008/2009 leading to weakening of peripheral bags. ii) The use of insufficient as well as old fumigation sheets. iii) The use of Celphos fumigant which was not very effective. <p>Action Taken by NCPB Management</p> <p>The problem of fumigation sheets was addressed in 2011 by procurement of 140 pieces of fumigation sheets. The issue of Celphos fumigant was addressed by NCPB Management as follows:-</p> <ol style="list-style-type: none"> i) The field pest control officers were asked to give their own assessment on the performance of Celphos brand in comparison with other similar brands they have used 			

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Timeframe:
	<p>valued at Kshs.6,226,921,120 gunny bags valued at Kshs.162,785,119 and powdered milk – KCC valued at Kshs.200,000,000. However, no records and documents including annual stock – take sheets were availed to support this balance.</p> <p>Consequently, it is not possible to confirm that the balance of Kshs.6,589,706,239 is stated in the financial statements reflects the fair value of the inventories as at 30 June 2016.</p>	<p>before.</p> <p>ii) The pest control officers indicated that Gastoxin and Detia brands were better than celphos brand because re-infestation occur after an average 2 months instead of 3 months in other brands.</p> <p>iii) The poor performance of the product was communicated to Pest Control Products Board (PCPB) on 21st February 2011 of which they responded vide their letter ref: PCPB/111/REG/Vol. 1/11/62 dated 1st March 2011.</p> <p>iv) Twiga Chemical Industries Ltd the supplier of Celphos brand wrote a letter to NCPB Management refuting the poor performance of their products.</p> <p>v) Given that the product has been registered by PCPB in Kenya with similar technical specification as having 57% active ingredient and offered at very competitive price, a meeting was convened to discuss poor performance of celphos brand and chart the way forwards 2nd June 2011.</p> <p>vi) Meanwhile the pest control officers</p>			

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Timeframe:
		<p>were guided to increase the dosage from 3 tablets per ton to 4 tablets as a remedial measure and also assess the performance.</p> <p>vii) It was recommended in the meeting that an independent analysis be undertaken. The University of Nairobi's Chemical and Industrial Consultancy Unit was contracted to carry out the independent efficacy tests on celphos, gastoxin and detia for comparison.</p> <p>viii) The results from the chemical test by University of Nairobi indicated that Gastoxin was better fumigant than celphos and detia.(Report dated 22nd May 2013)</p> <p>ix) A meeting was arranged and held on 18th June 2014 between NCPB and the manufacturer of Celphos fumigant, M/S Excel Crop Care ltd, to discuss the poor performance of their product.</p> <p>x) Following the discussion NCPB management made a decision to discontinue the procurement and use of celphos fumigant and pursued other brands like gastoxin in July 2014.</p>			

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Timeframe:
		<p>NCPB Management recommended to the SGR Trustees the sale of the old maize. The Trustees were slow in granting the authority and the quantities authorized were always below the quantity requested. The approval for disposal/sale was granted as follows;</p> <ul style="list-style-type: none"> i) In 2012 , 300,000 bags. ii) In 2013, 451,102 bags iii) Approval for 867,988 bags was sought but delayed but finally 500,000 bags was approved in June 2014 but were processed through open tender which delayed it further. However the approval was finally granted in July 2014 when the market was already saturated with a lot of maize from the neighbouring countries. iv) Authority of another lot of 2,404,923 bags x 90 Kgs comprising maize older than 2 years was granted by SFR Oversight Board in September 2015. <p>It is clear that while procurement of effective chemicals in a timely manner is a factor that</p>			

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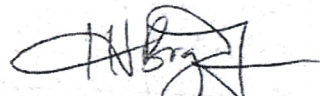
Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Timeframe:
		<p>has immense effect on the maintenance of grain quality, the other areas that have received attention so as to reduce losses are;</p> <ul style="list-style-type: none"> i) Grain in conventional stores should be refreshed through sale at least within twenty four (24) months. ii) Grain stored in the silos should be moved out within six (6) months iii) Procurement of effective brands of fumigants has been initiated and now being adhered to and all stock are being fumigated as scheduled or when due. <p>(ii) Unsupported Balance</p> <p>It is true that the inventory balance of Kshs. 6,589,706,239 includes powdered milk – KCC valued at Khs. 200,000,000. Attached is a report on the status of strategic reserve food powder by KCC for audit review.</p>			
440	<p>RECEIVABLES</p> <p>The receivables balance of Kshs.7,030,977,248.00 reflected in the statement of financial position has not been supported with details and</p>	<p>RECEIVABLES</p> <p>It is true that the statement of financial position reflects balance of Kshs.7,030,977,248.00 under receivables. The balances comprise debtors equivalent Kshs.6,865,220,613.00 brought forward from the financial year 2012/2013 from State for</p>	HAU	Resolved	Resolved

**STRATEGIC GRAIN RESERVE FUND
REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2018**

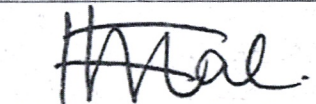
Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Timeframe:
	breakdown of individuals debts and services rendered on any documentary evidence. As a result the completeness, accuracy and recoverability of the receivables balances of Kshs.7,030,977,248 could not be confirmed.	Special Programmes.			
441	TRADE AND OTHER PAYABLES The statement of financial position reflects a trade and other payables balance of Kshs.1,807,680,657 which is disclosed under not 9 to the financial statements is not of Kshs.1,330,352,499 indicated as payments during the year. However, no documentary evidence has been provided to confirm the payments during the year. Under the circumstances the completeness and accuracy of the trade and other payables balance of Kshs.1,807,680,657 could not be ascertained.	TRADE AND OTHER PAYABLES It is true that the statement of financial position reflects trade and other payables balance of Kshs. 1,807,680,657. This represents the amount owed by the Strategic Food Reserve Fund to NCPB. A schedule of the amounts paid and owed was been provided for audit review	HAU	Resolved	Resolved

**STRATEGIC GRAIN RESERVE FUND
REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2018**

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Timeframe:
442	<p>AGENCY AGREEMENT</p> <p>As reported previously, the latest 6th Agency Agreement between the Ministry and National Cereals and Produce Board, which outlines the terms of engagement between the two parties, and which runs from 1 July 2013 to 30 June 2016, has still not been signed by the two parties to date. Consequently, any contracts entered into and transactions carried out between the two parties may not be enforceable in law.</p>	<p>AGENCY AGREEMENT</p> <p>It is true that the Agency Agreement between the Trustees of the Fund and National Cereals and Produce Board for the period including 2015/2016 financial year had not been signed. During the period the Trustees were still negotiating with NCPB on lowering the Agency Commission rates. However, the agreement was that the previous signed Agency Agreement be in force until they had settled on agreeable commissions. An agency agreement covering 1st July 2015 to 30th June 2017 was signed and herein attached</p>	HAU	Resolved	Resolved


Principal Secretary

Date: 28/9/18


Head of Accounting Unit

Date: 28/9/18