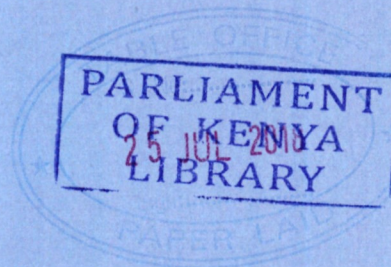


REPUBLIC OF KENYA

*Paper laid by the
Leader of Opposition
MRF
25/7/2018*



OFFICE OF THE AUDITOR-GENERAL



REPORT

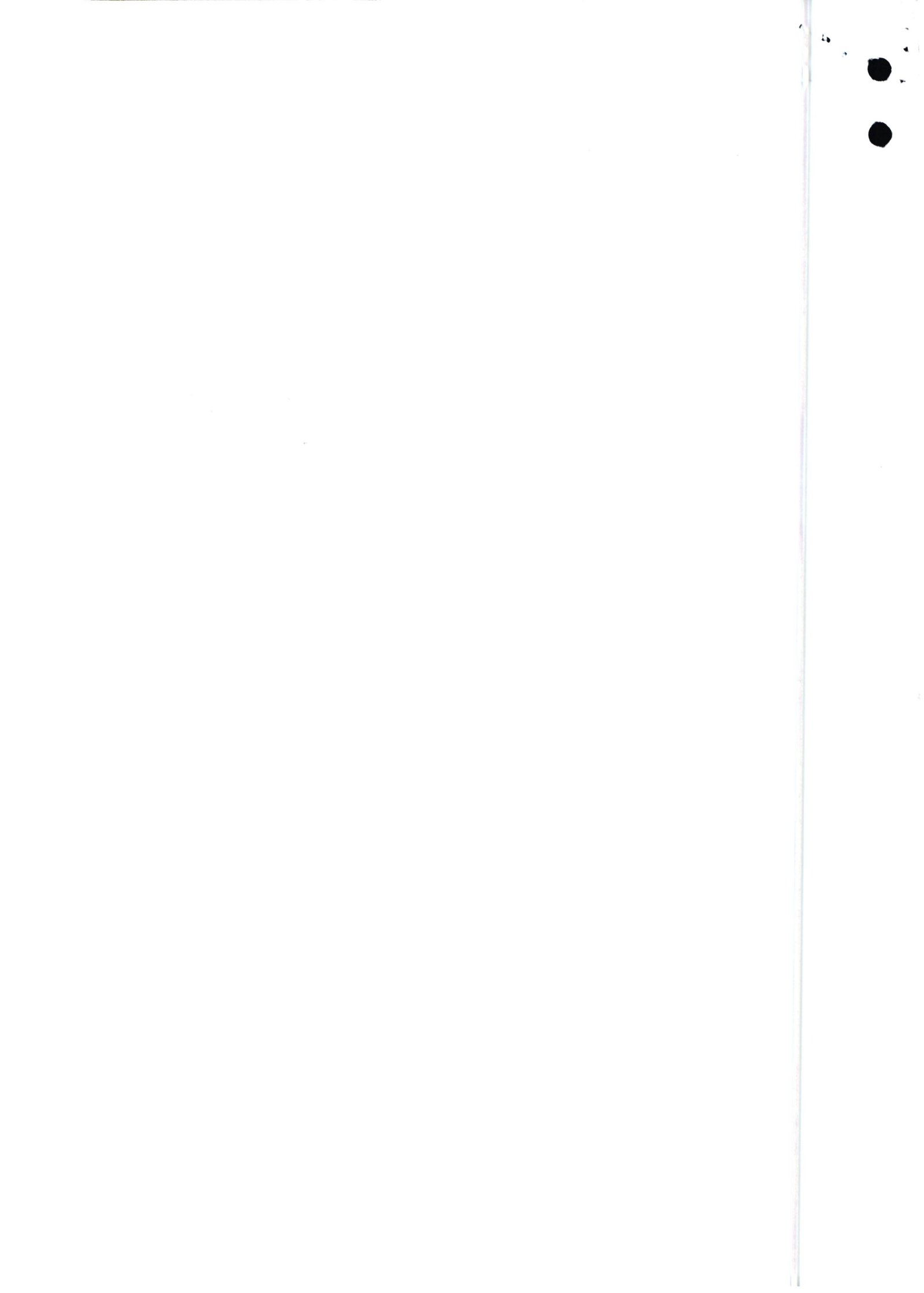
OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
NATIONAL CEREALS AND PRODUCE
BOARD**

**FOR THE YEAR ENDED
30 JUNE 2017**





NATIONAL CEREALS AND PRODUCE BOARD

Leaders in Grain Management

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2017

Prepared in accordance with the Accrual Basis of Accounting Method under the International
Financial Reporting Standards (IFRS)





10/10/10

TABLE OF CONTENTS

PAGE

I. Corporate Information.....	2
II. The Board Of Directors.....	4
III. Management Team.....	6
IV. Chairman's Statement.....	10
V. Report Of The Managing Director.....	12
VI. Corporate Governance Statement.....	14
VII. Management Discussion And Analysis.....	18
VIII. Corporate Social Responsibility Statement.....	20
IX. Report Of The Directors.....	22
X. Statement Of Directors' Responsibilities.....	23
XI. Statement Of Financial Position.....	26
XII. Statement Of Changes In Equity.....	28
XIII. Statement Of Cash Flows.....	29
XIV. Statement Of Comparison Of Budget And Actual Amounts For The Year Ended 30 June 2017....	30
XV. Notes To The Financial Statements.....	31
XVI. Progress On Follow Up Of Auditor Recommendations.....	47
XVII.....	58
XVIII. Appendix 2: Inter-Entity Transfers.....	58



NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017

I. CORPORATE INFORMATION

Background information

National Cereals and Produce Board was established by Chapter 338 Act of Parliament on 8th August 1985. At cabinet level, the Board is represented by the Cabinet Secretary for Agriculture who is responsible for the general policy and strategic direction of the Board. NCPB is domiciled in Kenya and has several branches spread all over the country.

Principal Activities

The main activities of the Board are:-

- a) Trading in agricultural produce, i.e. maize, wheat, rice, beans, millet, green grams and sorghum
- b) Management of the country's Strategic Grain Reserves (SGR) and Famine Relief stocks on Agency basis on behalf of the Government of Kenya.
- c) Provision of grain related services of storage, quality maintenance and storage facilities to third parties and,
- d) Importation and sale of farm inputs.

Vision Statement

Be the leading agricultural commodity management and trading organization in the world.

Mission Statement

To promote free and fair trade in commodities through research and market development, and ensure that there is timely accessibility of commodities to all.

Values

To achieve our Vision and Mission, the following Core Values are our guiding principles:

- Team Spirit
- Integrity and Honesty
- Impartiality and fairness and
- Professionalism

Directors

The Directors who served the entity during the year were as follows:

1. Col. (Rtd) Geoffrey. M. King'ang'I - Chairman (Re-appointed on 17th April 2015 and resigned in May 2017)
2. Mr. Newton S. K. Terer - Managing Director
3. Mr. Silas Magut - Member (Appointed on 2nd October 2015)
4. Mrs. Ann Wambaa - Member (Appointed on 2nd October 2015)
5. Mr. Nick Hutchinson - Member (Appointed on 2nd October 2015)
6. Dr. Francis Gichuki - Member (Appointed on 8th August 2016)
7. Mr. Samson P. Wangusi - Alternate Director to the Permanent Secretary Ministry of Devolution and Planning
8. Mr. Vincent M Ambutsi - Alternate to PS , State Department of Special programmes
9. Mr. David Ole Shege - Alternate Director to the Permanent Secretary National Treasury
10. Mr. Philip T Makheti - Alternate Director to the Permanent Secretary Ministry of Agriculture, Livestock and Fisheries

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017

Corporate Headquarters

Nyumba ya Nafaka
Machakos Road
P.O. Box 30586
Nairobi, Kenya

Corporate Contacts

Telephone: 254(20) 536028/555288
E-mail: md@ncpb.co.ke
Website: ncpb.co.ke

Corporate Bankers

- | | | |
|--|---|---|
| 1. Kenya Commercial Bank
B.O. Box 48400
<u>NAIROBI</u> | 2. Cooperative Bank of Kenya
B.O.Box 48231
<u>NAIROBI</u> | 3. Consolidated Bank
Koinange Street
<u>NAIROBI</u> |
|--|---|---|

Independent Auditors

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

Principal Legal Advisers

- | | |
|---|--|
| 1. The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya | 2. Advocates
Various
A list is available at the Board |
|---|--|

II. THE BOARD OF DIRECTORS



Col. (Rtd) Geoffrey M. King'ang'i, EBS, Chairman

Born 1959, was appointed the Chairman of the NCPB Board of Directors in 2013. He holds a Master's degree in International Security from Leicester University, a Bachelor of Science degree in Civil Engineering and Architecture from St. Georges University International, UK, and a Postgraduate Diploma in Strategic Studies from University of Nairobi. Has over 25 years in handling security matters; specializing in tactical, operational and strategic fields.



Newton S.K. Terer, Managing Director

Born 1962, was appointed Managing Director in 2014. Has over 25 years' experience in Banking and Finance, Has worked with the Agricultural Finance Corporation as General Manager Operations and held senior management in major financial institutions like Gulf African Bank, Equity Bank, Consolidated Bank and Kenya Commercial Bank (KCB). Holds a Master of Business Administration (MBA) and Bachelor of Education degree in Economics from Moi University and Kenyatta University respectively.



Mrs Ann Wambaa, LLB,MBS, Board Member

Born 1949, has over 30 years of experience having worked with Agricultural Society of Kenya (ASK) and Nairobi International Trade Fair (NITF) as well as the Electoral Commission of Kenya (ECK) and National Council of Women of Kenya (NCWK). Holds a Bachelor of Laws (LL.B) from the University of Nairobi and a diploma in Education from Kenyatta University.



Mr. Silas Magut, Board Member

Born 1965, a career teacher and an active farmer, has held many leadership positions in various schools over the years. Has served as chair of Uasin Gishu County Schools Sports Association. He is a Board member of the Noble Savings and Credit Cooperative (SACCO) Society Limited based in Uasin Gishu County. Holds a Bachelor of Education degree from Moi University.



Mr. Nicholas C. Hutchinson, Board Member

Born 1950, has extensive business management experience having previously worked in East Africa (Monsanto Company), Europe, North America and South Asia. He is currently the Managing Director of Unga Group Limited and a director at Kisima Farm Limited and Sunpower Products Limited as well as Chairman of Miller Association of Kenya. Holds a BsC Degree (Hons) from the University of London



Dr. Francis Gichuki, Board Member

Born 1950, an agricultural and irrigation engineer. He has researched and specialized in soil and water engineering (Irrigation, drainage, water harvesting and soil /water conservation). Has taught at the University of Nairobi for many years. Currently the leader of Integrated Basin Water Management Systems theme of the Challenge Programme on Water and Food. (www.waterforfood.org) Holds a PhD from the Utah State University, USA.



Phillip T. Makhethi, Board Member (Alternate to PS, State Department of Agriculture)

Born 1959, A career civil servant with over 30 years' experience, has served in different capacities from a lecturer at Sangalo Institute of Science and Technology rising to Ag. Deputy Director, Agriculture Marketing and Agricultural Advisory Services Division in the Ministry of Agriculture Livestock and Fisheries. Holds a Master of Science Degree in Agriculture and Rural Development and a Bachelor of Arts degree from Kenya Methodist University and the University of Nairobi respectively.



Vincent Matioli Ambutsi, Board Member (Alternate to PS, State Department of Special Programmes)

Born 1966, He has over 22 years' experience in Public Administration and Disaster Risk Management. He began his career as a district officer and went on to become the Under Secretary in the Ministry of Special Programmes, where he is currently the chair of the National Disaster Risk Management Strategy. He also lectures at the National Defence College on disaster related courses. He holds a Master in Public Administration from Moi University and a Bachelor of Arts degree from the University of Nairobi. He was appointed on 5th September 2016.



Mr. David Oleshege, Board Member Representing the National Treasury

A career administrator with vast experience in management. He began as a district officer and rose through the ranks to become a County Commissioner working in different parts of the country. He holds a Master of Arts and Bachelor of Arts degrees respectively.



Samson P. Wangusi, Board Member (Alternate to PS, State Department of Special Programmes)

Mr. Samson P. Wangusi, aged 50 years holds MA in Public Administration from Moi University. He has 27 years' experience in public administration under the Office of President. He is the alternate director to the Principal Secretary, Ministry of Devolution & Planning. He was transferred to another Ministry effective from 30th September 2016.

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017

III. MANAGEMENT TEAM



Newton S.K. Terer, Managing Director

He joined NCPB in 2014 as Managing Director. Has over 25 years' experience in Banking and Finance. Has worked with the Agricultural Finance Corporation as General Manager Operations and held senior management positions in major financial institutions like Gulf African Bank, Equity Bank, Consolidated Bank and Kenya Commercial Bank (KCB). He holds a Master of Business Administration (MBA) and Bachelor of Education degree in Economics from Moi University and Kenyatta University respectively.



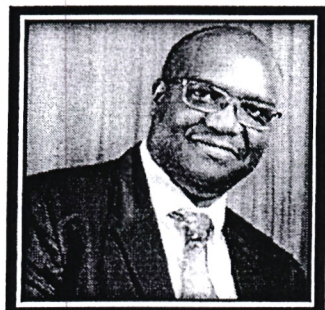
Cornel K. Ngelechey, General Manager, Finance and Procurement

He joined the Board in 1990. Has over 27 years' experience in financial management in various capacities having previously worked with Kenya Industrial Estate (KIE). Holds an MBA (Finance), BA (Economics and Business Studies) from University of Nairobi and Kenya University respectively and CPA (K) as well as a Trustee Development Programme Kenya (TDPK) certificate of proficiency. He is a member of ICPAK. He is responsible for overseeing the Finance and Procurement functions in the Board.



John Ndonga Mburu, Sales and Marketing Manager

He joined the Board in 1996. Has experience of over 20 years in Corporate Planning (Research and Business Development) and Sales Marketing functions. Possess a Bachelor of Science Degree in Statistics from the University of Nairobi. He is responsible for the attainment of sustainable marketing activities through the development and implementation of appropriate policies and strategies.



John K. Ngetich, Board Secretary

Joined the Board's Legal Department in 1999 after previously working for Hilian Investments (K) Limited. A Qualified advocate, he holds a Bachelor of Laws and BA (Political Science) degrees as well as a Post-graduate Diploma in Law. He responsible for overall Overseeing and undertaking all legal aspects of the Board's Business and secretarial services.



Bernard K. Yegon, Manager, Risk and Compliance

Joined the Board in 2014 as Internal Audit Manager. Possesses over 15 years' experience in internal audit having previously worked with County Government of Kericho and James Finlay Kenya Limited. Holds BCOM. (Accounting) degree from Kenyatta University and a CPA (K). He is a member of ICPAK, IIA & ACFE. Responsible for ensuring that the Risks / threats against attainment of the Board's strategic and operational plans are identified in advance and ensuring that applicable statutory laws and regulations; Board's policies; procedures and quality standards are implemented and

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017



Evans S. Wasike, Human Resource Manager

Has over 25 years' experience in Human Resource Management. Has held leadership positions in sports administration and the Cooperative Movement. Holds a BA Degree in Human Resource Management from Kenyatta University, a Higher Diploma in Human Resource Management from Kenya National Examination Council (KNEC), a Diploma in Labour Studies and Management from Kenya Polytechnic as well as a Trustee Development Programme Kenya (TDPK) certificate of proficiency and an international volleyball refereeing certificate. He is Full Member of the Institute of Human Resource Management (IHRM). He is responsible for organising and administering all HR Management Services for the efficient and effective utilisation of the Board's Human Resources by attracting, maintaining and enhancing the organisation's human resources.



Fredrick K. Siele, Services Marketing Manager

He possesses over 20 years' experience having previously worked with the Teachers Service Commission (TSC). Possess an MA (Business Administration) and MSC (Food and Agriculture Marketing) as well as a BA (Rural Industries). Responsible for ensuring optimum revenue from hiring out grain related services such as storage/warehousing, grain drying, weighing and fumigation through effective marketing of these services to potential clients



Rosemary I. Kweya, Research and Business Development Manager

Possesses over 20 years' experience in the Board's Operations, Marketing and Research Departments. She holds a Master of Science (Marketing) and a Bachelor Degree (Agriculture). Responsible for advising the Board on short and long term strategic planning issues concerning quantum and pricing projections, with regards to: grain purchasing (domestic producers/suppliers and imports); grain markets, consumption, private sector market potentials and distribution (market segments and imports



Jones M. Kanyaa, Operations Manager

Joined NCPB in 1990 after having previously worked with Government Chemist. Has worked in the Board's Operations and Marketing functions. Holds a Bachelor of Science Degree in Food Science and Technology from the University of Nairobi and a Certificate in Sustainable Agriculture. Responsible for overseeing Board's activities relating to stocks and commodity procurement, management and distribution as well as the quality of various products.



Rose Ikonge Andanje, Corporate Affairs Manager

Joined the Board in 2014. Possesses over 15 years' experience in Communication practice. Has previously worked with the Ministry of Information and Communication, the Transition Authority and Kenya News Agency. She possesses a Master of Arts Degree (Corporate Communication) from Daystar University, BA (General) from the University of Nairobi and a Post-graduate Diploma in Mass Communication from the Kenya Institute of Mass Communication. She is a Member of PRSK and AMWIK. She is responsible for the attainment of sustainable Corporate affairs activities through the development and implementation of appropriate policies and strategies.

Josphat K. Githuku, Information Communication Technology Manager

Possesses over 20 years' experience in information technology. Before joining NCPB, worked with NOCK, NSE and practiced as a consultant. Holds a BSc (Mathematics and Computer Science) and a Post-graduate Diploma in Computer Science. Responsible for establishing and maintaining a comprehensive and integrated computer based information processing systems providing all information services required in accordance with NCPB's business strategy at minimal cost.



Ernest M. Ogwora, Manager, Monitoring and Evaluation

Possesses over 25 years' experience in grain management, Consultancy and Lecturing. Holds a Master of Business Administration Degree (Strategic Management) and a Bachelor of Science Degree (Agricultural Engineering) from the University of Nairobi. He is a registered Arbitrator under EAGC. He is responsible for establishing and implementing an effective system to monitor progress, impacts and successes of project activities and performance at all levels.



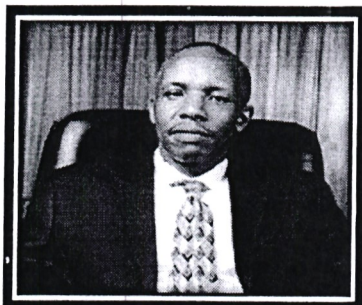
Jane Chebore Korir, Administration Manager

Has over 25 years' experience in Office administrative functions. Previously worked with the Ministry of Public Works. Holds a Master of Arts degree (Gender & Devt. Studies), a Bachelor of Arts degree (Business & Office Management) and a Diploma in Business and Office Management. Responsible for overseeing the administrative activities of the Board.



John M. Gichuru, Finance Manager

He possesses over 20 years' experience in financial management having previously worked with Homegrown K. Ltd and as a Consultant with World Bank. Holds a BA Economics and Business Studies from Kenyatta University and CPA (K) as well as a Trustee Development Programme Kenya (TDPK) certificate of proficiency. Responsible for the implementation of an appropriate accounting systems, producing financial reports and maintaining sound financial records.



NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017



Mwuoka Mwango, Technical Manager

Has over 20 years in Technical Maintenance function and Silo Operations activities. Possesses a BSc Degree (Mechanical Engineering) from the University of Nairobi and is a member of the Engineering Regulatory Board of Kenya (ERBK). He is responsible for the construction of new capital facilities and the maintenance and repair of all the existing Board's buildings, Silos, Stores, Plants and Machinery



Ambrose Njoroge Mutua, Internal Audit Manager

Has over 10 years' experience in Internal Auditing having joined the Board in 2007. He has held various positions within the Boards audit department. Holds a Bachelor of Commerce Degree (Finance) from the University of Nairobi and CPA (K). He is responsible for overseeing Board's internal operating controls, processes and practices by providing continuous reviews and assessments



Michael Karanja Wainaina, Security Manager

Possesses over 10 years' experience in Security Matters within Kenya Police Services. Holds a Bachelor of Education degree from Maseno University and is trained in Advanced Investigations. He is responsible for ensuring proper and effective guarding of the Board's properties, assets and the personnel, maintenance of law and order within the premises of the Board at all times.



Maureen Letting, Procurement Manager

Has five years' experience in Procurement and Customer Relations in the Board and Post Bank Kenya Limited. Holds a Bachelor of Business Management Degree from Moi University and an Advanced Diploma from the Chartered Institute of Purchasing and Supply (CIPS). She is responsible for overseeing the procurement, storage and issuance of various goods and services in the Board and implementation and enforcement of Procurement regulations, policies, systems and procedures.

IV. CHAIRMAN'S STATEMENT

Overview of Economic Review

According to the Economic survey 2017, the Kenyan economy continued to register robust growth despite the slower global and regional growth. The economy grew by 5.9 percent, 6.2 percent and 5.7 percent in the first, second and third quarters of 2016 respectively, bringing the average growth for the first three quarters to 5.9 percent. In 2017, the economy is projected to further expand by 5.9 percent, but growth could be lower if the ongoing drought persists and the slowdown in private sector credit is not reversed.

Kenyan economy is growing at twice the pace of global growth and more than twice that of Sub Saharan Africa. The resilience of the economy reflects continued macroeconomic stability, lower import bill, investment in infrastructure and recovery in tourism. The vibrant and dynamic private sector has also contributed to this resilience.

Agriculture Subsector Review

The agriculture sector's share of GDP increased from 30.4% in 2015 to 32.6% in 2016. In addition the sector indirectly contributes about 27.0 % to GDP through linkages with manufacturing, distribution and other service related sectors. However, in 2016 growth in agriculture declined by 4% as compared a growth of % in 2015.

Financial Highlights

During the period, NCPB was able to post net profit from its core operations amounting to **Kshs.265.8** million as compared to a profit of Kshs **265.3** million posted in 2015/2016 FY(**Kshs.112.1 million**, being gain on compulsory disposal of land for construction of SGR railway).

Key Activities

Maize Situation

The country continued to experience normal food supply in the first half of the year and NCPB managed to purchase **992,411 x 90 Kg bags** of SFR from local farmers at a cost of **Kshs.2.97 billion**. However in the second half the milling sector started to echo fears of imminent shortage of maize as the prices for milled flour started rallying upwards. This was due to prolonged drought in some parts of the country and below normal rainfall country. This triggered the Government through NCPB to reassure on sufficiency of maize supplies and sanctioned release of all SFR maize to the market. In execution of this social intervention mandate, NCPB sold **2.866 millionx 90 kg** bags of maize raising **shs. 7.3** billion on behalf of SFR Board.

In order to cushion consumers the Government further introduced Food Subsidy programme in which duty on maize was waived up to 30th September 2017, importation of maize by GOK and sold to the millers at KShs. 2,300.00 per 90 kg and in turn the millers were to sale maize flour at KShs. 90.00 and KShs. 47.00 per 2kg and 1kg respectively. The imports are from Mexico, Ethiopia, South Africa and Zambia. As at 30th June 2017 the Board as Government agent had received **1.94 million** x 90 kg bags of maize and sold **1.24 million** x 90 kg bags. The GOK Food Subsidy programme is continuing in the coming year.

Fertilizers Distribution

NCPB imported 150,000 MT of assorted fertilizers worth Kshs. 6.2 billion for distribution to farmers under GoK fertilizers subsidy programme. NCPB also handled assorted fertilizers on behalf of the Government supplied by YWPD and which were also distributed.

Wheat Handling

NCPB in collaboration with the millers also purchased and sold wheat under the wheat market intervention programme coordinated by MOALF.

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017

Strategic Focus

The vital role played by NCPB in ensuring national food security and general stabilization in supply is underscored during times of shortage or surplus when it becomes necessary to release maize to the market to protect the consumer or mop up surplus grain to cushion eminent exploitation of the farmers. More importantly, distribution of fertilizers ensures access to quality inputs across the entire country with the aim of boosting production for National Food self-sufficiency.

To ameliorate this conflict, the Government of Kenya through MOALF commissioned a restructuring study that has so far led to the establishment of Strategic Food Reserve Oversight Board. It is expected that other recommendations of the study will be implemented that will go a long way in enhancing organisational effectiveness

The key recommendations of the study conducted by Ernest and Young consulting firm are as summarised below:-

- a) Establishment of an independent **Grain Regulator** to regulate the grain industry in the country
- b) Separation of the Social and Commercial roles to enable NCPB play its rightful role in liberalized and competitive grain market through establishing **a National Food Security Agency**.
- c) Restructuring the current NCPB into **Grain Corporation of Kenya** that will deal with the commercial activities including becoming a major National Warehousing institution to support on-going market reforms.
- d) Expansion of the **Warehouse Receipting System (WRS)**
- e) Establishment of **a Commodity Exchange (COMEX)** that encompasses all agricultural commodities in the region.
- f) Preparing adequate **Legal and Regulatory Framework** to govern and assist grain trade to prosper.

The report was submitted to the Government and further guidance on its implementation are being awaited.

In meantime, NCPB has commenced internal re-organization that will categorise depots according to their business contribution as while as other actions intended to re-invigorate corporate performance and effectiveness



Mr. Nicholas C. Hutchinson
AG. CHAIRMAN

V. REPORT OF THE MANAGING DIRECTOR

NCPB management continuously scans the operating environment so as to institute and adapt appropriately to emergent factors. During the year under review, the management organized retreats that reviewed various activities that included implementation of restructuring study recommendations, categorization of depots, revamping revenue generation, as well as cost reduction initiatives. Continuous review of set short-term, medium-term and long term goals to ensure turnaround to profitability, self-sustainability and attainment of Vision 2030 expectations as well as goal and strategies set out in the NCPB Strategic Plan 2015/2016-2019/2020.

To position NCPB strategically, appropriate policies and strategies will continue to be put in place so as to harness the gains made towards attainment of profitability and consistently provide adequate and affordable food and farm inputs to Kenyans.

Operations

Whereas the country continued to experience normal food supply, the milling sector echoed fears of imminent shortage of maize as the prices for milled flour started rallying upwards that triggered the Government through NCPB to reassure on sufficiency of maize supplies and sanctioned release of SFR maize to the market.

NCPB as Government agent continued executing intervention programmes in management of SFR maize as well as distribution of subsidised fertilizers programmes.

During the year under review, NCPB continued with its turnaround strategies by posting a profit from its operations amounting to Kshs 265.8 million as compared to a profit of Kshs 265.3 million posted in 2015/2016 FY (which included KShs. 112.1 million pertaining to gain on disposal of land). The gross sales turnover declined slightly from 8.07 billion in 2015/2016 FY to **Kshs 7.79billion** in 2016/2017 FY due to reduction of fertilizer operations in the period under review arising from prolonged drought.

However accumulation of huge debts by the Government amounting to Kshs.7.5 billion is adversely affecting operations of the Board. This coupled with weak working capital meant that NCPB had to heavily rely on expensive commercial bank borrowings despite the inherent risk of interest.

All through these challenging times, the Board remained resilient by maintaining a disciplined focus on turnaround strategy. Management strengthened the strategic intent on controlling cost, enhancement of capacity utilization and focused on development of value addition capacity.

More importantly, NCPB continued to develop linkages with other Institutions to address emergent challenges, one being the MOALF that has been pivotal in resolving historical agency tax arrears, old outstanding debts, as well as constraint in the subsidised fertilizers distribution.

During the year NCPB received Kshs. 2.97 billion which was used to purchase 0.992 million bags x 90 Kgs of maize for SFR purposes. At the same time, NCPB sold 2.866 million x 90 Kg bags at a value of Kshs7.3 billion of SFR maize and remitted the sales proceed to SFR Trust Fund account.

On social interventions, NCPB procured and distributed 230,443 bags of maize on behalf of the MODP for relief programme and offered storage services for other foodstuff and social intervention materials.

To mitigate the effects of high farm inputs, NCPB imported and distributed 150,000 MT of assorted fertilizers at an ex- Depot cost of Kshs. 6.2 billion which was sold to farmers at subsidized prices. In addition, NCPB received 18,125 MT of assorted fertilizers on behalf of the Government supplied by YWPD and which were also distributed.

Similarly during the period, NCPB in collaboration with the millers purchased and sold 429,897 x 90kg bags of wheat at a cost of KShs. 1.283 billion under the wheat market intervention programme coordinated by MOALF.

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017

ISO TRANSITION

The Board was certified in 2015 and is due for re-certification in 2018. This will be done under ISO 9001:2015 standards. Consequently the Board has commenced the process of transition to the new standard that is risk based. This means that as an organization plans for its QMS, it will be able to identify risks and opportunities and develop action plans to address them. The Board hopes to reap from this new perspective as it provides an opportunity to reduce risks associated with carrying out its mandate and improve service delivery leading to greater customer satisfaction and achievement of the organization's quality objectives. The ongoing business process re-engineering is one of the activities being carried out with the aim of improving efficiency in the Board and will feed into the revision of the existing Quality Management System (QMS).



Newton S.K. Terer
MANAGING DIRECTOR

VI. CORPORATE GOVERNANCE STATEMENT

Corporate Governance is the system through which corporations are directed, controlled and operated as power is exercised over its assets and resources. National Cereals and Produce Board (herein after referred to as NCPB) considers corporate governance to be a critical issue towards maintenance of business integrity and stakeholders' trust and is therefore an integral part of our operations philosophy. Our corporate governance values are founded on the **Mwongozo** the code of governance for state corporations. The Board is responsible for NCPB's corporate governance practices and as in place mechanisms to ensure observance and report on its compliance status on a regular basis.

Our high standards of corporate governance are not an exercise in compliance, but a means of driving the performance of the business and operations whilst managing and mitigating risk.

Board Composition

The NCPB is managed by the Board of Directors appointed by the President as provided by the NCPB Act cap 338. The Board consists of eleven directors who are non-executive except for the Managing Director who is executive. Notably, the Board is composed of directors with a diverse mix of skills, experience and competencies in the relevant fields of expertise and is well placed to take the organization forward. The Board Secretary is responsible for monitoring and coordinating the Board's agenda and papers.

Appointments and Induction to the Board

Directors are appointed in accordance with the NCPB Act Cap 338. On appointment, directors receive an induction covering the NCPB. As part of this process, the NCPB organizes for regular training on corporate governance as per the calendar of SACC. Directors are advised on the legal, regulatory and other obligations of a director of a state corporation and updated on industry and regulatory developments as they take place. All directors also have access to the Board Secretary, who is responsible for ensuring that the Board's procedures are followed and that applicable laws and regulations are complied with.

Board's Responsibilities

The Board of directors is responsible for providing policies and leadership to NCPB. The Board's duties and responsibilities include: -

- Setting policy guidelines for management and ensuring competent management of the business including the selection, supervision and remuneration of Senior Management;
- Ensuring that the business of NCPB is conducted in compliance with relevant laws and regulations; and
- Monitoring performance.

Board and Strategy Meetings

An annual plan of scheduled Board meetings is prepared each year in advance and provided to all directors. The full Board meets at least four times a year (quarterly basis) and special meetings may be convened when need arises. Guidelines are in place concerning the content, presentation and delivery of Board Papers for each Board meeting to ensure that directors have adequate information and sufficient time for appropriate briefing ahead of each meeting. The Board is in charge of overall strategic direction and approved business plans which form the basis of performance assessment.

Board Chairman and Managing Director

The roles and responsibilities for the Chairman of the Board and the Managing Director are distinct and separate. The chairman provides overall leadership to the Board in line with principles of collective responsibility for Board decisions. The Managing Director is responsible to the Board and takes charge of executive management in the course of effective and efficient running of the NCPB on a day-to-day basis. The Board has delegated to the Managing Director authority to implement Board decisions with assistance from Management team.

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017

Board performance Evaluation

The Board is responsible for ensuring that an evaluation of its performance and that of its committees and individual directors is carried out each year. This involves a self-review of the Board's capacity, functionality and effectiveness of performance against its set objectives. Evaluation enables directors to suggest how Board procedures may be improved by assessing strengths and weaknesses and addressing its balance of skills, knowledge and experience. This is done by way of both the peer and self-evaluations under the guidance from SACCC who are the custodian of the tool.

Director's Remuneration

The Government guidelines on remuneration of the directors provide the payable amount. The Directors are not eligible for pension scheme membership or dividends.

Internal Control and Audit

The Board has collective responsibility for establishment and management of appropriate systems of internal control and for reviewing their effectiveness. The system of internal control in place has defined procedures with operational and financial controls to ensure that assets are safeguarded, financial transactions authorized and recorded properly, and that material errors and irregularities are either prevented or detected within a reasonable period of time.

The Board reviews effectiveness of internal control systems in place by taking into account results of work carried out to audit and review NCPB by both internal and external audit providers. Internal audit is carried out by an independent Internal Audit Department that reports to the Board Audit Committee and provides confirmation that the NCPB operations, policies and procedures as set by the Board are being complied with. The Board has reviewed the NCPB system of internal control and is satisfied that the system is effective. However, the Board recognizes that any system of internal control can provide only reasonable and not absolute assurance against material misstatement or loss.

Risk Management and Compliance

The Board of Directors has overall responsibility for the establishment and oversight of NCPB's management framework. The Board's audit Committee is responsible for developing and monitoring NCPB risk management policies established to identify and analyze the risks faced by the NCPB to set appropriate risk limits and controls, and to monitor risks and adherence to limits. NCPB through its training and management standards and procedures aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board has also set up Risks Compliance Department that evaluates the NCPB's compliance framework, identifies and monitors relevant legislation applicable and ensures adherence to NCPB's policies as well as legislative and regulatory requirements including changes arising and their impact.

Conflicts of Interest

The Board's policy provides that Directors, their immediate families and companies in which directors have interests only do business with NCPB at arm's length. Where a matter concerning NCPB may result in a conflict of interest, the director is obliged to declare the same and exclude themselves from any discussion or vote over the matter in question. Directors also have a duty to avoid situations of appointment to positions or acquisition of significant interest in businesses competing with NCPB. Business transactions with directors and related parties are disclosed in notes to the financial statements.

Board Sub-committees

To enhance the breadth and depth of achieving Board responsibilities, the Board has delegated authority to various sub-committees although the Board retains ultimate collective accountability for performance and corporate governance. Committees of the Board are as follows:

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017

- 1 Finance and Procurement Oversight
- 2 Audit Committee
- 3 Operations, Business Development & Strategic Planning
- 4 Human Resource & Legal Affairs

These committees have formally determined terms of reference with defined scope of authority, set by the Board of Directors which are from time to time refreshed to synchronize them with new developments and government guidelines.

Finance and Procurement oversight Committee

The Membership of the committee comprises of at least four directors and the Managing Director, currently constituted as hereunder:-

- Mr. Nick Hutchinson – Chairperson
- Mr. Newton K. Terer – Managing Director
- Dr. Francis N. Gichuki
- Mr. David Ole Shege
- Mr. Philip T. Makheti

The committee meets at least every quarter. The objective of the committee is to assist the Board of Directors in reviewing the financial statements and overseeing the procurement of NCPB. The committee is responsible to review the quarterly financial statements and the performance contract implementation. Also oversee the implementation of the approved procurement plan for the financial year.

Audit and Risk Committee

The committee comprises at least five non-executive directors, the majority of whom shall be independent non-executive directors, currently constituted as hereunder: -

- Mr. Silas K. Magut - Chairperson
- Mr. Nick Hutchinson
- Mrs. Anne M. Wambaa
- Mr. David Ole Shege
- Mr. Philip T. Makheti

The committee meets every quarter with internal auditors without management being present and may attend on invitation. Meetings are normally attended by resources from Departments of Internal Audit and Risk Management & Compliance.

The objective of this Committee is to provide independent oversight of NCPB's financial reporting and internal control system, ensure checks and balances within the NCPB are in place and recommend appropriate remedial action regularly and ensures quality integrity and reliability of the Bank's and its subsidiaries risk management. It also assists the Board of Directors in the discharge of its duties relating to the corporate accountability and associated risks in terms of management, assurance and reporting.

The terms of reference of Committee are achieved through review and evaluation of the financial status of the NCPB, review of internal controls, consider performance and findings of internal auditors and recommend appropriate remedial action, review management reports and reports from external auditors concerning deviations and weaknesses in accounting and operational controls, coordinate between the internal audit function and external auditors, monitor the ethical conduct of the institution and consider the development of ethical standards and requirements, including effectiveness of procedures for handling and reporting complaints, review any related party transactions that may arise within the industry set out the nature, role, responsibility and authority of the risk management and independent compliance functions in NCPB and outline the scope of risk management work, monitor external developments relating to the practice of corporate accountability and the reporting of specifically associated risks, including emerging

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017

and prospective impact, provide independent and objective oversight and review of the information presented by the management.

Operations, Business Development & Strategic Planning Committee

The Membership of the committee comprises of at least four directors and the Managing Director, currently constituted as hereunder:-

- Dr. Francis Gichuki - Chairperson
- Mr. Newton K. Terer - Managing Director
- Mr. Nick Hutchinson
- Mr. Philip T. Makheti
- Mr. Vincent M. Ambutsi
- Mr. Samson P. Wangusi

The committee meets at least every quarter. The objective of the committee is to assist the Board of Directors in reviewing the operations, business development and strategic planning of NCPB. The committee is responsible to review the quarterly operations, business strategies, research & planning and implementation of the strategic plan.

Human Resource and Legal Affairs Committee

The Membership of the committee comprises of at least four directors and the Managing Director, currently constituted as hereunder:-

- Anne. M. Wambaa (Mrs.) - Chairperson
- Mr. Newton K. Terer - Managing Director
- Mr. Silas K. Magut
- Mr. Philip T. Makheti
- Mr. Vincent M. Ambutsi
- Mr. Samson P. Wangusi

The committee meets at least every quarter. The objective of the committee is to assist the Board of Directors in policy framework relating to NCPB Human Resources and Legal Affairs, including policies on the hiring, firing, remuneration package promotions, medical, staff loans, and all other matters as spelt out in the staff policy manual, training and staff development, staff welfare, code of conduct and performance index.

Similarly, it is tasked with the responsibility of overseeing the legal department and receiving reports on the status of all legal matters including ongoing court case matters.

Directors' Attendance 2016/2017 FY

No	Names	Designation	Full Board	Sub-Committees			
				Finance & Procurement Oversight)	Operations, business Development & Strategic Planning	Human Resource & Legal affairs	Audit
1.	Col.(Rtd) Geoffrey Kingangi	Chairman	12	-	-	-	-
2	Mr. Newton k. Terer	Managing Director	15	6	4	4	3
3	Silas Magut	Member	15	3	2	4	3
4	Anne M. Wambaa (Mrs),MBS	Member	6	-	2	2	=
5	Nick Hutchinson	Member	6	4	2	=	2
6	Dr. Francis Gichuki	Member	12	4	2	=	=
7	Samson P. Wangusi	Representative – PS Ministry of Devolution & Planning (replaced by Mr. Ambutsi in August 2016)	2	-	1	-	-
8	Mr. Vincent M. Ambutsi	Representative - PS Ministry of Devolution & Planning	9	-	3	3	-
9	Phillip Makheti	Representative - PS Ministry of Agriculture, Livestock & Fisheries	15	6	4	4	3
10	David Oleshege	Representative -PS National Treasury	6	2	-	-	2

VII. MANAGEMENT DISCUSSION AND ANALYSIS

1. Establishment of the Commodity Exchange / Warehouse Receipt System

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

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

The progress is as follows;

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

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

2. e-Commerce

The modern trade transactions are now becoming more sophisticated with adoption of ICT and mobile technologies. NCPB has embraced e-commerce not only through automation of its ICT platform that is capable of linking all the 110 depots countrywide on on-line basis but also embraced mobile money and electronic transfers as mode of settlement for commodity purchases and payment to farmers for deliveries as well as other suppliers.

To enhance controls in the identification of farmers benefiting from subsidized fertilizers, NCPB in conjunction with MOALF and Safaricom Ltd are implementing a e-subsidy platform. The platform contains a farmers' register with the details on identification, acreage, fertilizer requirements as well as option of paying through Mpesa.

3. Devolution of Agriculture

The adoption of 47 devolved units in 2013, upon promulgation of the new constitution, led to the devolution of agriculture sector. NCPB as a national entity has depots in 46 counties with one county being served through primary marketing centres.

This approach requires NCPB to work in collaboration with county governments in the process of farmers registration, vetting subsidized fertilizers beneficially and identification of families and institution for food supply during times of supply constraint.

CHALLENGES AND OPPORTUNITIES

The challenges that NCPB is facing are both historic financial and operational and which include the following:-

NATIONAL CEREALS AND PRODUCE BOARD ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

Low working Capital

NCPB's working capital was eroded to extremely low levels as a result of Government limitations in meeting working capital injection obligation to NCPB and losses incurred in carrying out Government initiated market stabilisation programmes.

From previous years' GoK social intervention programmes implemented by the Board, NCPB is owed Kshs.3.8 billion. This has led to over-reliance on expensive bank overdraft and loans that servicing of interest is a major drain on meagre resources

In order to address the challenges facing the Board and turn it round to profitability, the Government of Kenya through the Ministry of Agriculture commenced restructuring of the Board by commissioning Ernst and Young as the consultants on 13th May 2013.

Summary of Proposed Restructuring

- i) Change of name: from National Cereals and Produce Board (NCPB) to Grain Corporation of Kenya (GCK).
- ii) Separation of NCPB's social and commercial functions, and creation of suitable entities to enhance its service delivery in the grain sector.

To achieve this, the report recommended creation of four independent entities, namely:-

- Grain Regulatory Commission.
 - Grain Corporation of Kenya (Restructured NCPB).
 - National Food Security Office Agency (Management of the strategic grain reserves and famine relief stocks).
 - Commodity Exchange (COMEX) Market.
- iii) The report further recommends restructuring of the balance sheet that will involve settlement of NCPB outstanding debt of Kshs. 3.8billion and a capital injection of Kshs. 3 billion to enable the restructured NCPB revamp its commercial operations.

Aging physical infrastructure

Most of the storage facilities are old and some grain handling technology being used is fast becoming obsolete having been put in place in 1980s and early 1990s. Moreover, some storage facilities were set up in remote areas for food relief operations that do not breakeven under commercial principles. The need to marshal resources to upgrade the facilities and maintain stores that are not economically viable has become a major challenge to NCPB.

NCPB has commenced depot rationalization process that will lead to shedding off of underutilized storage facilities. The process involves categorization of depots based on their business contribution and mothballing of depots that are not financially viable.

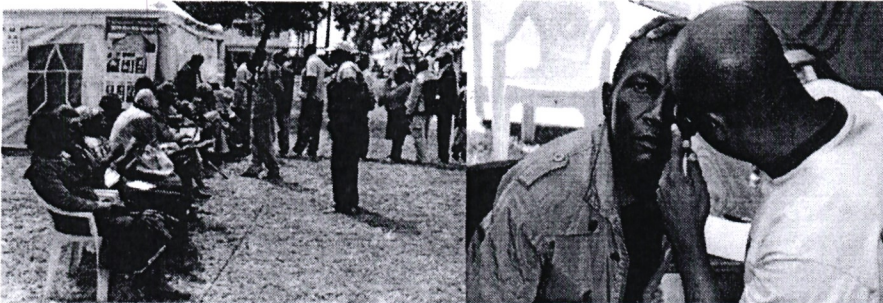
Unpredictable production trends

Arising from over-reliance on rain feed production; the agricultural sector has to contend with unpredictable food production level. This unpredictability results into production glut or deficits that both call for intervention to alleviate suffering by the farming communities or consumers. These demands for deployment of huge resources that overstretched the already depleted NCPB working capital. The Government effort to refocus on irrigation, early warning systems and restructuring of NCPB is expected to enhance response capacity and predictability of food supply situation

VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

The Board considers corporate social responsibility as an integral part of its business and that good business entails giving back to the society in order to get more. Even though CSR is voluntary, it is a good measure of good corporate citizenship. During the year under review, the Board was involved in the following CSR initiatives:

Wellness Programmes



Patients have their eyes checked during the free eye clinic

The Board together with the Lions SightFirst Eye Hospital in Loresho organized an eye checkup in Eldoret that benefited more than 400 residents. Some participants of the eye clinic were given treatment while others were issued with spectacles. Ten patients comprising children with severe eye problems requiring surgery were brought to Nairobi where they were operated on. The eye clinic was the first one to be done by Lions SightFirst Eye Hospital outside Nairobi and its environs.

Environmental Sustainability



NCPB Staff with scouts at the world environment day in Kisumu

NCPB joined hands with enthusiasts of environmental conservation to celebrate the world environment day in Kisumu. The Board donated 300 tree seedlings which were planted during the event. Similarly the Board has set up tree nurseries in each of its five regions which supplies tree seedlings to the public and to other NCPB depots. The Board planted 2560 tree seedlings during the year under review.

Donating to Communities



During the World Food day celebrations which were held in Kilifi County, the Board donated planting fertilizer that was distributed to farmers at the event. Besides that, trophies were also given out to be presented to those who won different awards during the event.

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017

Sports and Talent development

NCPB handball women's team during the East and Central Africa Handball championship

The Board continues to support talent development by maintaining handball teams for both women and men. The teams participated in the Handball National League and tournaments within the country and the Region.



The teams are paid allowances for their upkeep and this ensures that the youth are steered away from crime and associated vices. NCPB handball team has become an incubation of talent as a number of youths who play in the major teams in the national league started their handball career with Nafaka team.

Blood Donation



NCPB staff donating blood

The Board runs a corporate blood donor program as part of its commitment to support good health and wellness. During the last drive, staff members donated 22 units of blood to Blood Link Foundation on 29th September 2016.

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017

IX. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30 2017.

Principal activities

The Board's principal activity is grain handling and marketing with provision of allied services and facilities as well as distribution of farm inputs. This is in addition to undertaking social functions on behalf of the Government of Kenya on Agency basis that relates to the procurement, storage, quality maintenance, and distribution/sale of famine relief food commodities as well as SGR stock.

Results

The operating results for the year ended 30th June 2017 are set out on page 25 and summarized below: -

	2017	2016
	Kshs	Kshs
Operating profit before Depreciation & Provisions	691,384,402	690,883,304
Less:		
Depreciation	376,831,492	375,187,753
Amortization	748,970	2,362,088
Bad and doubtful debts	<u>48,000,000</u>	<u>48,000,000</u>
	<u>425,580,462</u>	<u>425,549,841</u>
Net Profit	<u>265,803,940</u>	<u>265,333,463</u>

Directors

The members of the Board of Directors who served during the year are shown on page 3. The Board members are appointed by the Cabinet Secretary in charge of Agriculture in accordance to the NCPB Act CAP 338 of the laws of Kenya.

Auditors

The Auditor General is responsible for the statutory audit of the Board in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 to carry out the audit of NCPB for the year ended June 30, 2017

By Order of the Board


Mr John K Ngetich
BOARD SECRETARY
NAIROBI
17th APRIL 2018

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017

X. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012, section 14 of the State Corporations Act and National Cereals and Produce Board Act, Cap 338 of the Laws of Kenya require the Directors to prepare financial statements in respect of that NCPB, which give a true and fair view of the state of affairs of the NCPB at the end of the financial year and the operating results of the NCPB for that year. The Directors are also required to ensure that the NCPB keeps proper accounting records which disclose with reasonable accuracy the financial position of the NCPB. The Directors are also responsible for safeguarding the assets of the NCPB.

The Directors are responsible for the preparation and presentation of the Board's financial statements, which give a true and fair view of the state of affairs of the *entity* for and as at the end of the financial year (period) ended on June 30, 2017. 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 Board; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the NCPB'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, 2012 and NCPB Act Cap 338. The Directors are of the opinion that the Board's financial statements give a true and fair view of the state of Board's transactions during the financial year ended June 30, 2017, and of the Board's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Board, which have been relied upon in the preparation of the Board's financial statements as well as the adequacy of the systems of internal financial control.

Approval of the financial statements

The Board's financial statements were approved by the Board on 12/04/ 2018 and signed on its behalf by:



Chairman



Managing Director

Director

REPUBLIC OF KENYA

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



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON NATIONAL CEREALS AND PRODUCE BOARD FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of National Cereals and Produce Board set out on pages 25 to 46, which comprise the statement of financial position as at 30 June 2017, and the statement of profit and loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015.

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

In addition, as required by Article 229(6) of the Constitution, I have not been able to obtain sufficient appropriate audit evidence to confirm that public money has been applied lawfully and in an effective way.

Basis for Disclaimer of Opinion

1. Finance Costs

As previously reported, the statement of profit and loss and other comprehensive incomes for the year ended 30 June 2017, and as disclosed under Note 9 to the financial statements reflects finance costs totalling Kshs.371,543,371. Included in this figure is Kshs.91,151,001 in respect of bank charges. The management however has not provided documentary evidence to support how the bank charges figure was determined.

Further, examination of documents provided for audit showed that finance costs increased from Kshs.147,846,887 in the previous year to Kshs.371,543,371 representing an increase 151% during the year. This was mainly attributed to an increase in loan interest charged during the year by Kshs.240,515,543. The management has not provided any documentary evidence showing the reasons that might have led to heavy borrowing which in turn resulted into the huge increase in finance costs. In the absence of documentary evidence to support the heavy borrowing

Report of the Auditor-General on the Financial Statements of National Cereals and Produce Board for the year ended 30 June 2017

during the year, it is not possible to confirm the propriety of the finance costs figure of Kshs. 371,543,371 as at 30 June 2017.

2. Property, Plant and Equipment

2.1. Ownership Documents

As previously reported, and as disclosed under Note 10 to the financial statements, property, plant and equipment balance of Kshs.6,724,455,101 as at 30 June 2017 includes fifty-five donor funded storage facilities whose ownership has not been clarified. Although in its sitting of 11th August 1998, the Public Investment Committee (PIC) directed both the parent Ministry and Treasury to look into the matter with a view to formerly transferring the facilities to the Board, no progress appears to have been recorded as at the date of this report.

2.2. Land

As previously reported, the property, plant and equipment balance of Kshs.6,724,455,101 also includes thirty-seven parcels of land valued at Kshs.54,383,887 that do not have title deeds. Information available indicates that some of the parcels are leased from Kenya Railways Corporation. The above situation is indicative of significant impairment on some of the properties.

2.3. Additions

Paragraph 16 (a) of the International Accounting Standard (IAS) No.16 states that the cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates. Examination of records of assets purchased during the year however revealed that additions to property, plant and equipment figure of Kshs.46,808,788 during the year includes 16% VAT which is a refundable purchase tax as the Board is VAT registered.

2.4. Depreciation

Note 4 (b) on summary of significant accounting policies states that plant, machinery and computer equipment are depreciated at 12.5% representing eight years of useful life. Further Note 4 (c) on intangible assets states that purchased computer software is amortized over a period of eight years. The management has not explained the economic and technological sense of the software being similarly depreciated for eight years.

Consequently, the property, plant and equipment balance of Kshs.6,724,455,101 reflected in the financial statements is not fairly stated.

3. Procurement of 40,000 Metric Tons of Maize

As previously reported, the Board entered into a fixed sum contract of Kshs.730,968,000 on 26 November 2004 for the supply of 40,000 Metric Tons (MT) of white maize at US Dollars 229 per MT which was not executed. The supplier sought for arbitration with the Kenya Chapter Institute of Chartered Arbitrators and in July 2009 was awarded US\$ 3,106,000 for breach of contract. On appeal by the Board, the award was increased to US\$6,140,859 being equivalent to Kshs.552,677,382 of which the amount of Kshs.264,864,285 has since been settled through bank attachments leaving a balance of Kshs.251,499,614. Although the case is pending in court awaiting its hearing and determination, it is not possible to ascertain the extent of liability that may arise as a result of the claim in question.

4. Inventories

- (i) Note 4(d) on summary of significant accounting policies states that, "inventories are stated at the lower of cost and net realizable value on the basis of first in first out principle and a provision for shrinkage computed at a rate of 2.2% of that value of the years purchases of grains and pulses". Note 12 to the financial statements shows that during the year under audit, the Board made a provision of Kshs.98,376,670 for stock shrinkage. Examination of the schedules provided for audit revealed that the Board purchased wheat, paddy rice, white maize, beans and green grams at a total cost of Kshs.1,283,520,270, Kshs.26,200,000, Kshs.49,950,000, Kshs.23,438,000 and Kshs.8,758,300 respectively during the year. However, no workings have been provided to show how the stock shrinkage provision of Kshs. 98,376,670 was determined.
- (ii) The inventories balance of Kshs.2,455,927,565 reflected in the statement of financial position and as disclosed under Note 12 to the financial statements excludes an amount of Kshs.2,282,237 described as provision for obsolete consumable stock. The management has also not provided details of how this figure was determined and neither does the Board have a policy on how to determine obsolete consumable stock.

Under the circumstances, it is not possible to confirm whether the inventories figure of Kshs.2,455,927,565 as at 30 June 2017 is fairly stated.

5. Current Liabilities

- (i) As reported in the previous year, included in the total current liabilities balance of Kshs.11,695,622,483 as at 30 June 2017 is an amount of Kshs.964,765,588 in respect of Value Added Tax arrears payable to Kenya Revenue Authority on provision of agencies services to the government. This figure includes Kshs.464,430,643.61 tax arrears that has remained outstanding since 2002. Although this amount continues to attract penalties and interest, the same have not been assessed and incorporated in these financial statements.

- (ii) Similarly, and as previously reported, the creditors and provisions balance of Kshs.3,354,250,076 as disclosed under Note 22 to the financial statements includes amounts of Kshs.630,689,332, Kshs.7,359,471, and Kshs.293,269,883 relating to trade creditors, staff creditors and sundry creditors and provisions respectively that have been outstanding since July 2007. Although the management has provided an analysis showing reductions of Kshs.680,013,116 and Kshs.3,341,164 in respect of trade creditors and staff creditors respectively during the year, no evidence has been provided for verification showing how the reduction of the liabilities was achieved. In addition, no satisfactory reason has been given for failure to settle the liabilities.
- (iii) As reported in the previous year, the statement of financial position reflects an amount of Kshs.431,187,701 against bank overdraft. A review of bank reconciliation statement for the account maintained at KCB Kencom Branch A/c No. 1107165679 revealed amounts of Kshs.4,169,758 described as payments in bank not in cash book and Kshs.1,384,815 described as receipts in the cash book not in bank statement that have been outstanding since August 2003. No explanation has been provided for these long outstanding amounts. Consequently, the accuracy of the overdraft amount of Kshs.431,187,701 as at 30 June 2017 cannot confirmed.

6. Bad and Doubtful Debts

The statement of profit and loss and other comprehensive income for the year ended 30 June 2017 reflects an amount of Kshs.48,000,000 relating to provision for bad and doubtful debts in the year under review, which is similar to the previous year's amount. No explanation or documentation was provided to support the amount. It is, therefore, not clear whether the provision is specific or general.

7. Trade Debtors and Other Receivables

- (i) As previously reported, trade debtors and other receivables gross balance of Kshs.1,321,887,915 as disclosed under Note 13 to the financial statements includes trade debtors totalling Kshs.1,019,091,082. However, included in the amount are debtors totalling Kshs.831,604,397 representing 82% of trade debtors that have been outstanding for more than five years. Although a cumulative bad debts provision of Kshs.943,557,914 has been made in the financial statements, it has not been possible to confirm whether and if so, when the Board will be able to recover the amounts. No action appears to have been taken to ensure recovery of these debts.
- (ii) Note 4(f) on summary of significant accounting policies states that, provision for bad and doubtful debts is made on the basis of specific debtors and consists of 100% specific provision for some debtors and a general provision of 7.5% on all outstanding trade debts at the balance sheet date. However,

examination of available information and Note 13 to the financial statements does not show that a general provision of 7.5% was made on all outstanding debts at the balance sheet date. This accounting policy is therefore not consistently applied.

- (iii) As disclosed in Note 13 to the financial statements, trade and other receivables gross figure of Kshs.1,321,887,915, includes Kshs.141,790,355 relating to sundry debtors and prepayments. This figure, however, is net of Kshs.9,602,346 negative balances contrary to paragraph 32 of the International Accounting Standard (IAS) No.1, which states that an entity shall not offset assets and liabilities or income and expenses unless required or permitted by the International Financial Reporting Standards (IFRS).
- (iv) Further, trade and other receivables gross figure includes Kshs.124,912,936 relating to staff debtors. Examination of documents, however, revealed that included in the figure for staff debtors is Kshs.110,219,900 in respect of cash loss, imprests and other losses and stock loss. Although the management has made a specific provision of Kshs.50,891,834 for the same, the provision does not seem adequate. The management has not explained how these losses occurred and the steps being taken by the Board to ensure both recovery of the losses and prevent future losses from happening.

In view of the above, I am not able to confirm whether trade and other receivables net balance of Kshs.378,330,001 as at 30 June 2017 is fairly stated.

8. Government Debtors-MOA Fertilizer Account

As previously reported, Government Debtors-MOA Fertilizer Account balance of 4,211,100,117 as at 30 June 2017 still includes brought forward figures of Kshs.342,341,936 and Kshs.191,916,638 relating to Strategic Grain Reserve Programme - Old Account and GOK 17 selected depots for old account Famine Relief respectively, both of which have remained unpaid for over 17 years. It has not been possible to confirm whether and if so, when the Board will be able to recover the amounts. No provision for bad and doubtful debts has been made in this regard.

9. Government Market Interventions Account

The statement of financial position and as disclosed under Note 24 to the financial statements reflects a balance of Kshs.174,063,028 relating to GOK market intervention Account. Although the management has disclosed under Note 24 to the financial statements that this balance relates to retained surplus from 1994/1995 maize intervention and subsequent maize export transaction in 1995/1996 and 1996/1997 retained to offset against other GOK debts which are still under review, no documentary evidence was produced for verification. In the circumstances, it has not been possible to confirm whether Government Market Interventions Account figure of Kshs.174,063,028 as at 30 June 2017 is fairly stated.

10. Government Agency Programme (Old Account)

The statement of financial position and as disclosed under Note 25 to the financial statements reflects a balance of Kshs.143,195,039 in respect to Government Agency Account - Operating Results (Old Account). Although the management has disclosed under Note 25 to the financial statements that this figure relates to the balance held on behalf of the government from cereal sales received by the Board on behalf of the government prior to the liberalization of cereals in 1993, no documentary evidence has been provided for verification. In addition, no explanation has been given as to why the Board has not remitted this amount to the government since 1993. Under the circumstances, it is not possible to ascertain the accuracy of the figure of Kshs.143,195,039 in respect to Government Agency -Old Account as at 30 June 2017.

11. Staff Costs and Wages

As previously reported, staff costs and wages figure of Kshs.976,439,206 for 2016/2017 as disclosed in Note 5 to the financial statements also include an amount of Kshs.10,839,672 in respect of acting allowances paid to employees for periods exceeding six months, contrary to Public Service Commission Human Resource Policies and Procedures Manual of May 2016 and the Board's Human Resource Policy. The Board is therefore in breach of Public Service Commission Human Resource Policies and its own Human Resource Policy.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such 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.

In preparing the financial statements, management is responsible for assessing the Board's ability to continue as a going concern, disclosing, as applicable, matters related going concern and using the applicable basis of accounting unless the management either intends to liquidate the Board or 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.

Those charged with governance are responsible for overseeing the Board's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

My responsibility is to conduct an audit of the National Cereals and Produce Board's 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.

I am independent of the National Cereals and Produce Board in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with ISSAI and in accordance with other requirements applicable to performing audits of financial statements in Kenya.



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

Nairobi

25 June 2018

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOMES

	Note	<u>2017</u> Kshs	<u>2016</u> Kshs
Gross Sales	1	7,788,905,646	8,071,196,623
Cost of Sales	2	6,285,099,970	6,598,130,425
Gross Margin		1,503,805,676	1,473,066,198
Gross Margin Gain as a % of Gross sales		19%	18%
ADD:			
Other Incomes	3	1,783,975,455	1,329,675,777
TOTAL REVENUES		3,287,781,131	2,802,741,975
OPERATING EXPENSES			
Railway and Road Transport	4	815,263,374	685,173,983
Staff costs and wages	5	976,439,206	980,064,335
Administration expenses	6	295,166,874	277,290,934
Directors expenses	7	9,885,073	5,946,134
Other operating expenses	8	128,098,832	130,338,072
		2,224,853,358	2,076,118,844
Profit before depreciation and bad debts		1,062,927,773	726,623,131
Deduct:			
Depreciation expense	10	376,831,492	375,187,753
Amortisation expense	11	748,970	2,362,088
Bad and doubtful debts	13	48,000,000	48,000,000
		425,580,462	425,549,841
Profit from operations		637,347,311	301,073,290
Finance costs	9	371,543,371	147,846,887
Profit Before Tax		265,803,940	153,226,404
Income Tax expense		-	-
Net profit after tax		265,803,940	156,226,404
Other comprehensive income			
Gains on disposal of land		-	112,107,060
TOTAL COMPREHENSIVE INCOMES FOR THE YEAR		265,803,940	265,333,464


NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017

XI. STATEMENT OF FINANCIAL POSITION

	Note	<u>2017</u> Kshs	<u>2016</u> Kshs
ASSETS			
Non- Current Assests			
Property, Plant and Equipment	10	6,724,455,101	7,054,477,805
Intangible Assets	11	<u>7,886,501</u>	<u>8,635,470</u>
Total Non – Current Assets		<u>6,732,341,602</u>	<u>7,063,113,275</u>
CURRENT ASSETS			
Inventories	12	2,455,927,565	910,243,950
Trade Debtors and Prepayments	13	378,330,001	545,036,971
Government Debtors – New Agency A/c	14	3,481,339,455	2,961,873,689
Government Debtors – MOA Fertiliser A/c	15	4,211,100,117	4,509,568,104
Bank and Cash Balances	16	<u>2,871,649,414</u>	<u>3,005,608,598</u>
Total Current Asset		<u>13,398,346,552</u>	<u>11,932,331,312</u>
TOTAL ASSETS		<u>20,130,688,154</u>	<u>18,995,444,587</u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Capital Fund	17	6,304,142,172	6,304,142,172
Revaluation Reserve	18	9,589,422,793	9,589,422,793
Revenue Reserve	19	<u>(7,458,499,294)</u>	<u>(7,724,303,233)</u>
Capital and Reserves		<u>8,435,065,671</u>	<u>8,169,261,732</u>
CURRENT LIABILITIES			
Bank Overdraft	20	431,187,701	299,070,750
Short Term Loan	21	2,691,627,318	-
Creditors and Provisions	22	3,354,250,076	6,753,703,604
Creditors - Due to GOK on fertilizer Sales	23	2,305,805,307	1,857,033,244
Creditors – Due to GOK on past market intervention	24	174,063,028	174,063,028
Government Agency Programme (Old A/c)	25	143,195,039	143,195,039
Creditors – Due to GOK on SGR Maize sales	26	1,630,728,425	634,351,602
Taxation	27	<u>964,765,588</u>	<u>964,765,588</u>
Total Current Liabilities		<u>11,695,622,483</u>	<u>10,826,182,855</u>
TOTAL EQUITY AND LIABILITIES		<u>20,130,688,154</u>	<u>18,995,444,587</u>

The financial statements were approved by the Board on 16/04/2018 and signed on its behalf by:


Newton S. K. Teler
Managing Director


Chairman of the Board

NATIONAL CEREALS AND PRODUCE BOARD
 ANNUAL REPORT AND FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30TH JUNE 2017

XII. STATEMENT OF CHANGES IN EQUITY

	Capital Fund KShs	Revaluation reserve KShs	Restated Revenue reserve KShs	Total KShs
At July 1, 2016	6,304,142,172	9,589,422,793	(7,989,636,698)	7,903,928,267
Net Profit	-	-	265,333,464	265,333,464
At June 30, 2016	6,304,142,172	9,589,422,793	(7,724,303,234)	8,169,261,731
At July 1, 2016	6,304,142,172	9,589,422,793	(7,724,303,234)	8,169,261,731
Net Profit for the year			265,803,940	265,803,940
At June 30, 2017	6,304,142,172	9,589,422,793	(7,458,499,294)	8,435,065,671

NATIONAL CEREALS AND PRODUCE BOARD
 ANNUAL REPORT AND FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30TH JUNE 2017

XIII. STATEMENT OF CASH FLOWS

	Note	2017 Kshs	2016 Kshs
OPERATING ACTIVITIES			
Cash generated from/used in operations	28	(219,267,346)	1,051,200,462
Net cash generated from /used in operating activities		<u>(219,267,346)</u>	<u>1,051,200,462</u>
INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment	10	(46,808,789)	(31,429,270)
Net increase /(decrease) in cash and cash equivalent (a)		<u>(266,076,135)</u>	<u>1,019,71,192</u>
Cash and Cash equivalent at beginning of the year			
Cash at Bank and on Hand	16	3,005,608,598	2,048,775,897
Bank Overdraft	20	(299,070,750)	(362,009,241)
Total (b)		<u>2,706,537,848</u>	<u>1,686,766,656</u>
Total (a+b)		<u>2,440,461,713</u>	<u>2,706,537,848</u>
Cash and Cash equivalent at end of the year			
Cash at Bank and on Hand	16	2,871,649,414	3,005,608,598
Bank Overdraft	20	(431,187,701)	(299,070,750)
		<u>2,440,461,713</u>	<u>2,706,537,848</u>

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017

XIV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDED 30 JUNE 2017

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% +/(-)	Ref no.
	2017	2017	2017	2017	2017		
	Kshs	Kshs	Kshs	Kshs	Kshs		
Revenue							
Gross sales	12,320,828,019	(555,043,594)	11,765,784,425	7,788,905,646	(3,976,878,779)	-34%	A
Less: Cost of sales	(9,737,346,118)	(426,072,488)	9,311,273,630	6,285,099,970	3,026,173,660	-33%	B
Gross margin	2,583,481,901	(127,971,106)	2,454,510,795	1,503,805,676	(950,705,119)		
Add:							
Other Incomes	1,612,552,053	(247,915,704)	1,364,636,349	1,783,975,455	419,339,106	31%	C
Total income	4,196,033,954	(376,886,810)	3,819,147,144	3,287,781,131	(531,366,013)		
Expenses							
Railway & Transport costs	1,130,892,027	(20,447,200)	1,110,444,827	815,263,374	295,181,453	27%	D
Staff costs and wages	1,272,983,444	(154,380,868)	1,118,602,576	976,439,205	142,163,371	13%	E
Administration Expenses	709,169,656	(174,418,568)	534,751,088	275,741,664	229,189,142	43%	F
Other operating expenses	189,073,837	(29,929,412)	159,144,425	128,098,832	31,045,593	20%	G
Provision	488,000,000	-	488,000,000	427,184,030	60,815,970	12%	H
Finance Cost	170,197,094	12,831,213	183,028,307	371,543,371	(188,515,064)	-103%	I
Total expenditure	3,960,316,058	(366,344,835)	3,593,971,223	3,021,977,192	576,535,996		
Surplus for the Year	235,717,896	(10,541,975)	225,175,921	265,803,940	45,169,983		

Explanatory notes on the differences above:

- The decrease in gross sales is due to un-realized maize revenues following acute shortage of maize in the market.
- The drop in cost of sales is due to low sales turnover.
- The increase in other incomes is due to increased commissions on SFR maize.
- The transport costs increase due to transportation of imported maize from the port to various upcountry depots across NCPB network
- The staff costs decreased due to non implementation of CBA
- The decrease in administrative costs is as a result of low maintenance and fumigation costs
- Decrease in other operating expenses is due to low consumption of industrial oil because of low intake of maize.
- Provision for depreciation increased to due non implementation of capital projects especially ICT upgrade.
- Finance costs increase as a result of high interest charged on loan taken to finance subsidized fertilizers

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017

XV. NOTES TO THE FINANCIAL STATEMENTS

1. General Information

NCPB was established through an Act of Parliament Chapter 338. The Board is wholly owned by the Government of Kenya and is domiciled in Kenya. The Board's principal activity is grain handling and marketing with allied services and facilities as well as distribution of farm inputs. This is in addition to undertaking social functions on behalf of the Government of Kenya on agency basis that relates to procurement, storage, quality maintenance, and distribution/sale of famine relief food commodities as well as SGR stocks.

2. Statement of Compliance and Basis of Preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying NCPB's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 5

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

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

3. Adoption of New and Revised Standards

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2017

Standard/Amendment to a standard	Effective date	Impact`
Amendments to IAS 16 and IAS 38 titled <i>Clarification of Acceptable Methods of Depreciation and Amortisation (issued in May 2014)</i>	1 st Jan 2016	There is no impact on the Board's property, plant, and equipment because the depreciation and amortisation are calculated on the basis of costs at the time they are incurred over the useful life of the assets. These costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it.
<i>Disclosure Initiative (Amendments to IAS 7: Statement of Cash flows)</i>	1 st Jan 2017	<i>Since the Board is fully owned by the Government, it does not pay out dividend or received dividend from any entity.</i>

(ii) Early adoption of standards

The Board did not early – adopt any new or amended standards in year 2017.

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017

4. Summary of Significant Accounting Policies

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

a) Revenue recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the Board and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or expected to be received in the ordinary course of the Board's activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the Board's activities as described below.

- i) Revenue from the sale of goods and services is recognised in the year in which the Board delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) Income from services rendered and facilities provided is recognized at the time of rendering and providing such services and facilities
- iii) Rental income is recognized in the income statement as it accrues using the effective lease agreements.
- iv) Other income is recognised as it accrues.

b) Depreciation on Property, Plant and Machinery

Depreciation charge on fixed assets is provided on a straight line basis and is calculated on cost or revaluation at the following rates which are consistent with prior years. Depreciation charge is prorated both in the year of asset purchase and in the year of asset disposal.

Freehold Land	Nil
Leasehold Land	Over the term of the lease
Buildings, Boreholes, Fences and Roads	2.5%
Silos, Cyprus bins, machinery House and Loading Bays	6%
Plant, machinery and Computer Equipment	12.5%
Fumigation Equipment	20%
Motor Vehicles and Drying Equipment	25%
Other Equipment	12.5%

c) Intangible assets

Intangible assets comprise purchased computer software which are capitalized on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful life of the intangible assets from the year that they are available for use, usually over eight years.

d) Inventories

Inventories are stated at the lower of cost and net realizable value on the basis of First In First out principle and a provision for shrinkage computed at a rate of 2.2% of the value of the year's purchases of grains and pulses.

(e) Stocks of consumable stores and Supplies

The accounting procedure for consumable supplies and stores that are centrally purchased is that items are initially coded to respective control accounts for these stocks at the time of procurement and the cost expensed/charged at the time of dispatch to the respective user

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017

budget centres. This policy ensures that budget centres are only held responsible for the expenditure directly related to what they have requisitioned and consumed.

(f) **Trade and other receivables**

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted. Provision for bad and doubtful has been made on the basis of specific debts and consists of 100% specific provision for some debtors and a general provision of 7.5% on all outstanding trade debts at Balance Sheet date.

g) **Cash and cash equivalents**

Cash and cash equivalents comprise of cash at bank and cash on hand held in the Board's Cash Offices at Head Office and Depot/Silos and Cash in Transit as at 30th June 2017.

h) **Agency fees/Commission**

The rates applicable for various services and facilities that were mutually agreed upon the principal (GOK) and the agent (NCPB) have been in force since 12th November 2002 is as follows:

<u>Nature of Service/facility</u>	<u>Rate</u> <u>Kshs/Percentage</u>
i) Storage	4.80 per bag per month
ii) Quality maintenance	5.00 per bag per month
iii) Commission on Purchasing	115.00 per bag
iv) Commission on releases	25.00 per bag
v) Commercial sales commission	9 % of sales value
vi) Commission on transport	10 % of transport cost
vii) Commission on commodity handling (Direct costs)	10 % of handling cost

i) **Trade Creditors and other payables**

Trade and other payables are non-interest bearing and are carried at amortised cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the Board or not, less any payments made to the suppliers.

j) **Retirement benefit obligations**

The Board operates a defined Provident Fund Scheme for all its permanent employees on 27th January, 1969. The Board's contributions are charged to the Income Statement in the period in which it relates. The assets of the scheme are held in a separate trustee administered fund, which is funded from contributions from both the Board and the employees.

NCPB also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently 15% while the employee contributes 7.5% of employees basic salary. It is an approved fund under the Income Tax Act and is registered with Retirement Benefits Authority.

k) **Provision for staff leave pay**

Employees' entitlements to annual leave are recognised as they accrue at the employees. A provision is made for the estimated liability for annual leave at the reporting date.

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017

l) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the Board operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

m) Budget information

The original budget for FY 2016-2017 was approved by the National Assembly and subsequently cascaded and the parent ministry communicated the approval on **2nd June 2016**.

There were no subsequent revisions or additional appropriations in the course of the year.

The Board's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

The variance between the actual and budgeted amounts for each item in the income statement is explained as shown in item XIV.

n) Comparative figures

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

p) 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.

5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

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

Estimates and assumptions

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

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017

or circumstances arising beyond the control of the Board. 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:

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

Provisions

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

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date.

Provision for bad and doubtful debts has been made on the basis of specific debts and consists of 100 % specific provision for some debtors and a general provision of 7.5% of all other outstanding trade debts at the balance sheet date.

Provision for stock shrinkage is computed at a rate of 2.2% of value of the year's purchases.

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. Gross Sales

	<u>2017</u> Kshs	<u>2016</u> Kshs
Local White Maize	121,005,100	76,487,262
Rice	195,662,790	186,341,672
Paddy	22,404,690	-
Wheat	1,302,676,530	-
Gunnies	5,535	90,314,001
Insecticides	0	31,270
Beans	39,353,360	47,891,562
Green Grams	0	12,040
Fertiliser	6,107,797,641	7,670,118,754
	<u>7,788,905,646</u>	<u>8,071,196,623</u>

2. Cost of Sales

Opening stocks	979,924,670	1,107,589,186
Purchase	7,830,783,589	6,467,087,030
Milling Costs	-	341,793
Provision for stock shrinkage (2.2%)	545,514	3,037,084
Closing Stocks	<u>(2,526,153,799)</u>	<u>(979,924,670)</u>
Cost of sales	<u>6,285,099,970</u>	<u>6,598,130,425</u>

3. Other Incomes

(a) Revenue from services/facilities

Weigh bridge charges	13,446,220	18,685,497
Bagging and handling charges	44,110,027	18,832,291
Cleaning charges	3,832,608	3,650,470
Rental charges	293,658,248	294,283,286
Drying and fumigation	69,202,094	36,226,932
	<u>424,249,197</u>	<u>371,678,486</u>

(b) Agency services

Gok agency remuneration	1,272,659,314	874,523,713
Agency commission from inputs	1,643,672	27,207,932
	<u>1,274,302,986</u>	<u>901,731,645</u>

(c) Sundry income

Insurance compensation	1,373,016	4,824,612
Sale of tender documents	486,573	2,171,384
Sale of obsolete materials	24,879	14,741
Other miscellaneous income	27,337,189	11,421,997
Other fee and charges	-	6,320,651
Disposal of fixed assets	-	113,440,155
	<u>29,221,658</u>	<u>138,193,539</u>

(d) investment income

Interest earned on short term Investments(FDR)	<u>56,201,614</u>	<u>30,179,168</u>
TOTAL OTHER INCOMES	<u>1,783,975,455</u>	<u>1,441,782,837</u>

4. Railway & Road transport costs	815,263,374	685,173,983
	<u>815,263,374</u>	<u>685,173,983</u>

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017

5. Staff Costs

	<u>2017</u> Kshs	<u>2016</u> Kshs
Salaries and wages	738,605,168	773,333,372
Board's contribution to PF and SSS	114,901,506	121,482,846
Board's contribution to NSSF	2,057,400	2,209,000
Medical expenses	43,820,114	42,975,900
Leave pay and gratuities	17,576,427	16,088,826
Welfare and training	<u>59,478,591</u>	<u>23,974,391</u>
	<u>976,439,206</u>	<u>983,315,855</u>

The average number of employees at the end of the year was:

Permanent Employee – Management	303	332
Permanent Employee - Unionisable	488	524
Temporary and contract Employees	<u>85</u>	<u>99</u>
	<u>879</u>	<u>955</u>

6. Administration expenses

Entertainment	6,159,689	5,015,823
Advertising	5,554,550	3,610,136
Conservancy, light and water	51,368,309	53,025,461
Consumable stores	1,530,251	2,102,898
Insurance	21,171,898	18,266,471
Land rents & rates and siding charges	21,771,704	20,971,437
Maintenance of machinery, furniture & equipment	53,805,113	39,562,400
Maintenance of building, fences, gates, roads and railway sidings	12,361,822	22,952,898
Postage, telegrams and telephone	8,480,089	11,854,437
Printing and stationery	14,068,735	4,942,605
Security expenses	96,843,441	93,381,429
Subscription & Nafaka Newsletter	682,460	344,745
Uniform and protective clothing	862,613	836,368
Donations	<u>506,200</u>	<u>423,825</u>
	<u>295,166,874</u>	<u>277,290,934</u>

7 Directors expenses

<u>9,885,073</u>	<u>5,946,134</u>
-------------------------	-------------------------

8. Operating Expenses

Fumigation expenses	10,677,243	18,590,980
Grain dryers operating costs	28,021,559	10,592,680
Commodity handlings costs	2,916,333	1,250,112
Hired transport (Non commodities)	-	30,000
Shows and exhibitions	5,138,566	6,633,844
Travelling and subsistence	45,983,759	50,602,663
Vehicles running costs	14,080,948	11,127,574
Audit fee	2,900,000	2,900,000
Legal and other professional fees	<u>18,380,424</u>	<u>22,664,086</u>
	<u>128,098,832</u>	<u>124,391,938</u>

9. Finance Costs

	<u>2017</u> Kshs	<u>2016</u> Kshs
Bank charges	91,151,001	44,171,779
Bank overdraft and Loan interest	<u>280,392,370</u>	<u>89,666,967</u>
	<u>371,543,371</u>	<u>133,838,746</u>

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017

10. Property, Plant And Machinery (KShs) - 2017

	Leasehold Land	Fencing Driveways & civil works	Building and Grain Silos	Motor Vehicles	Plant & Machinery & Equipment	WIP	TOTAL
Cost /Valuation							
1/7/2016	943,121,270	422,430,110	9,562,523,350	88,139,195	501,274,294	21,449,978	11,538,938,197
Additions	0	0	7,273,269	8,026,786	6,533,046	24,975,687	46,808,788
Disposals	0	0	0	0	0	0	0
At 30/06/2017	943,121,270	422,430,110	9,569,796,619	96,165,981	507,807,341	46,425,665	11,585,746,985
DEPRECIATION							
1/7/2016	146,822,597	118,721,034	3,694,408,876	68,833,299	455,674,586	0	4,484,460,392
Charge for the Year	13,060,333	10,613,713	337,534,839	6,207,405	9,415,202	0	376,831,492
30/06/2017	159,882,930	129,334,747	4,031,943,715	75,040,704	465,089,788	0	4,861,291,884
NET BOOK VALUE	783,238,338	293,095,362	5,537,852,903	21,125,277	42,717,553	46,425,665	6,724,455,101

Property, Plant And Machinery (KShs) - 2016

	Leasehold Land	Fencing Driveways & civil works	Building and Grain Silos	Motor Vehicles	Plant & Machinery & Equipment	Work In Progress	TOTAL
Cost /Valuation							
1/7/2015	945,960,177	422,430,110	9,558,728,096	71,965,920	469,434,227	39,361,864	11,507,880,393
Additions	-	-	3,795,254	16,173,275	31,840,067	(17,911,886)	33,896,711
Disposals	(2,838,907)	-	-	-	-	-	(2,838,907)
At 30/06/2016	943,121,270	422,430,110	9,562,523,350	88,139,195	501,274,294	21,449,978	11,538,938,197
DEPRECIATION							
1/7/2015	133,774,514	108,100,827	3,356,850,487	64,432,936	446,485,341	-	4,109,644,105
Charge for the Year	13,419,549	10,620,207	337,558,389	4,400,363	9,189,245	-	375,187,754
On disposal	(371,466)	-	-	-	-	-	(371,466)
30/06/2016	146,822,597	118,721,034	3,694,408,876	68,833,299	455,674,586	-	4,484,460,392
NET BOOK VALUE	796,298,671	303,709,076	5,868,114,474	19,305,896	45,599,708	21,449,978	7,054,477,805

11. Intangible Assets

	2017 Kshs	2016 Kshs
COST		
At July 1	32,006,091	32,006,091
At 30 th June	32,006,091	32,006,091
AMORTISATION		
At July 1	23,370,621	21,008,533
Charge for the year	748,970	2,362,088
At 30 th June	24,119,590	23,370,621
Net Book Value at 30th June	7,886,501	8,635,470

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017

12. Inventories

The closing stocks of commodities valued at Kshs 2,455,927,565(2015/2016 Kshs 910,243,950) was composed of the following:

	<u>2017</u> Kshs	<u>2016</u> Kshs
(a)Composition of stocks		
Local White maize	20,650,995	21,175,553
Beans	5,664,106	18,265,970
Wheat	0	691,600
Castor seeds	640	640
Paddy	39,265,305	156,251,697
Local milled rice	13,201,615	29,870,125
Wimbi	96,760	96,760
Green Grams	8,802,160	0
Fertiliser	2,408,882,189	725,066,620
Packaging bags(Jute/pp)	29,577,856	28,493,531
Insecticides	12,173	12,173
Total	<u>2,526,153,799</u>	<u>979,924,669</u>
(b)stock of consumables		
	<u>30,432,674</u>	<u>30,432,674</u>
Total	<u>2,556,586,472</u>	<u>1,010,357,343</u>
Less:		
Provision for stock shrinkage (2.2%)	98,376,670	97,831,156
Provision for obsolete consumable stock	<u>2,282,237</u>	<u>2,282,237</u>
Total provision	<u>100,658,907</u>	<u>100,113,393</u>
Total closing stock at year end	<u>2,455,927,565</u>	<u>910,243,950</u>

13. Trade and Other Receivables

Former Associated Company	160,078	160,078
Debtors for imported Wheat	35,933,464	35,933,464
Trade Debtors	1,019,019,082	1,046,873,032
Staff Debtors	124,912,936	110,734,120
Sundry Debtors and Prepayments	141,790,355	<u>294,894,191</u>
Total	<u>1,321,887,915</u>	<u>1,488,594,885</u>
Less: Provision for bad and doubtful debts (b)	<u>943,557,914</u>	<u>943,557,914</u>
Net Trade and Other receivables	<u>378,330,001</u>	<u>545,036,971</u>

(b) The provision for bad and Doubtful debts comprise the following:

Associated Companies	160,078	160,078
Debtors for imported Wheat	35,933,464	35,933,464
Other trade debtors	831,604,397	831,604,397
Staff debtors	50,891,834	50,891,834
Sundry debtors	<u>24,968,141</u>	<u>24,968,141</u>
Total cumulative provision	<u>943,557,914</u>	<u>943,557,914</u>

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017

At June 30, the ageing analysis of the gross trade debtors was as follows:

	<u>2017</u>	<u>2016</u>
	Kshs	Kshs
Less than 30 days	63,635,562	229,746,414
Between 30 and 60 days	40,084,701	3,702,620
Between 61 and 90 days	10,077,747	6,499,665
Between 91 and 120 days	11,825,816	7,315,480
Over 120 days	<u>893,467,256</u>	<u>779,608,851</u>
	<u>1,019,091,082</u>	<u>1,046,873,032</u>

14. Government Debtors – New Agency A/c

The breakdown of amounts outstanding in relation to each activity as well as remittances from Government during the year is summarized here below:

	Cumulative amounts Due	Amounts Received	Net bal. due 30 th June 2017	Net bal. due 30 th June 2016
(a) Strategic Grain Reserve(old A/c)				
Balance B/F	342,241,936	0	342,341,936	342,341,936
Direct expenses for the year	0	0	0	0
Sub Total	<u>342,241,936</u>	<u>0</u>	<u>342,341,936</u>	<u>342,241,936</u>
(b) Famine Relief Programme				
Balance B/F	139,188,660	2,448,359	136,740,301	138,983,632
Direct expenses for the year	610,848,640	663,377,680	(52,529,040)	90,570
Storage charges	<u>7,510,017</u>	<u>7,510,017</u>	0	894,738
Sub Total	<u>757,547,317</u>	<u>673,336,056</u>	<u>84,211,261</u>	<u>139,968,940</u>
© GOK 17selected Depots for Famine Relief				
Balance B/F	191,916,638	0	191,916,638	191,916,638
Direct expenses for the year	0	0	0	0
Sub Total	<u>191,916,638</u>	<u>0</u>	<u>191,916,638</u>	<u>191,916,638</u>
(d) Strategic Grain Reserve(New A/c)				
Balance B/F	2,568,989,772	356,244,614	2,212,745,159	2,275,853,706
Direct expenses for the year	4,801,825,300	4,463,436,899	338,388,400	108,854,276
Storage charges	<u>1,469,470,470</u>	<u>826,691,215</u>	<u>640,779,256</u>	<u>184,281,668</u>
Sub Total	<u>8,840,285,542</u>	<u>5,648,372,727</u>	<u>3,191,912,815</u>	<u>2,568,989,650</u>
Total(a+b+c+d)	<u>10,132,091,433</u>	<u>6,319,260,424</u>	<u>3,810,382,650</u>	<u>3,243,217,164</u>
Less sales proceeds from sale of returned gunnies			480,000	780,280
			<u>3,809,902,650</u>	<u>3,242,436,884</u>
Provision for bad & doubtful debts			328,563,195	280,563,195
Net outstanding balance -30th June 2017			<u>3,481,339,455</u>	<u>2,961,873,689</u>

15. Government Debtors - MOA Fertilizer A/C

During the year the Board handled and sold assorted quantities of fertilizers at subsidized price and the outstanding subsidy from GOK is as shown below.

	<u>2017</u>	<u>2016</u>
	Kshs	Kshs
Balance B/F	4,509,568,104	4,443,382,167
Add cost for the year	<u>2,868,982,888</u>	<u>3,197,276,300</u>
	7,378,550,992	7,640,658,467
Less: Amount received during the year	<u>3,167,450,875</u>	<u>3,131,090,363</u>
Balance due from GOK	<u>4,211,100,117</u>	<u>4,509,568,104</u>

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017

16. Bank and Cash Balances

The amount of Kshs 2,871,649,414 represents bank balances and cash in hand held in the Board's Cash Offices at Head Office and Cash in transit as at 30th June 2017.

	<u>2017</u> Kshs	<u>2016</u> Kshs
Cash at Bank	2,851,897,349	2,996,067,121
Cash in hand	1,244,523	5,306,808
Cash in transit	<u>18,507,542</u>	<u>4,234,669</u>
Total cash at Bank and in hand	<u>2,871,649,414</u>	<u>3,005,608,598</u>

The make – up of bank balances is as follows:

Detailed analysis of the cash and cash equivalents

<u>Financial institution</u>	<u>Account number</u>	<u>KShs</u>	<u>KShs</u>
a) Current account			
KCB, Coop bank, Consolidated bank and Transnational Bank	104 Bank A/cs	2,851,897,350	2,996,067,121
Cash in transit		18,507,542	4,234,669
cash in hand		<u>1,244,523</u>	<u>5,306,808</u>
Sub- total		<u>2,871,649,414</u>	<u>3,005,608,598</u>
b) bank Overdraft			
Total cash and cash equivalents		(431,187,701)	(299,070,750)
		<u>2,440,461,713</u>	<u>2,706,537,848</u>

17. CAPITAL FUND

Balance B/F	<u>6,304,142,172</u>	<u>6,304,142,172</u>
-------------	----------------------	----------------------

18. REVALUATION RESERVE

The revaluation reserve relates to the revaluation of items of property, plant, and equipment. The incorporation of the new values of assets resulted to a net revaluation gain of Kshs 6,889,998,967 and together with brought forward balance increased revaluation reserve to Kshs 9,589,422,793

19. NET OPERATING PROFIT

The Board recorded a Net Operating Profit of Kshs.265,803,940 during the year under review on its commercial activities. The Profit have been transferred to the Revenue Reserves Account leaving a debit balance of Kshs.7,458,499,294 as shown below;

	<u>2017</u> Kshs	<u>2016</u> Kshs
Balance B/F	(7,724,303,234)	(7,989,636,698)
Net profit for the year	<u>265,803,940</u>	<u>265,333,463</u>
	<u>(7,458,499,294)</u>	<u>(7,724,303,234)</u>

20. BANK OVERDRAFT

The Board has a standby overdraft facility of Kshs.435 million with the Kenya Commercial Bank Limited to supplement working capital. The balances as at 30th June 2017 were as follows: -

	<u>2017</u> Kshs	<u>2016</u> Kshs
Main Bank A/c	<u>431,187,701</u>	<u>299,070,750</u>

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017

21. **SHORTTERM LOAN**

Further the Board has standing additional short term loan facility with Kenya Commercial Bank of Kshs 3.3 billion. The balances as at 30th June 2017 were as follows: -

	2017 Kshs	2016 Kshs
Balance at beginning of the year	2691,627,318	0
Domestic borrowings during the year	0	0
Repayments of domestics borrowings during the year	<u>0</u>	<u>0</u>
Balance at end of the year	<u>2,691,627,318</u>	<u>0</u>

The Board does not have any external loan. The domestic borrowing is as follows:

Domestic Borrowings		
KCB Loan	<u>2,691,627,318</u>	<u>0</u>

22. **Trade Creditors and other Payables**

	2017 Kshs	2016 Kshs
Trade payables	2,151,527,508	5,386,072,040
Creditors – owing to farmers	12,420,866	33,091,631
Creditors – staff	8,438,380	7,369,552
Sundry creditors and provisions	<u>1,181,863,322</u>	<u>1,327,171,381</u>
Trade creditors and provisions	<u>3,354,250,076</u>	<u>6,753,703,604</u>

Provision for leave pay

Balance at beginning of the year	0	0
Additional provision at end of year	2,612,494	0
Leave taken during the year	<u>0</u>	<u>0</u>
Balance at end of the year	<u>2,612,494</u>	<u>2,612,494</u>

Provision for annual leave pay is based on services rendered by full-time employees up to the end of the year.

23. **Creditors - Due to GOK – Fertilizer Sales**

Balance B/F	1,857,033,244	1,784,768,937
Sales for the year	<u>605,508,563</u>	<u>543,429,607</u>
	2,462,541,807	2,328,198,544
Less: Remittances	<u>156,736,500</u>	<u>471,165,300</u>
Amount owed to GOK at year end	<u>2,305,805,307</u>	<u>1,857,033,244</u>

24. **Government market Intervention A/c**

The balance in this account relates to 1994/1995 maize intervention and subsequent maize export transactions in 1995/95 and 1996/97. As at Balance sheet date there was still a retained surplus of Kshs 174,063,028 to be offset against other GOK debts which are still under review as shown below,

	2017 Kshs	2016 Kshs
Balance due to GOK as at year end	<u>174,063,028</u>	<u>174,063,028</u>

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017

25. Government Agency Account- operating Results (Old Account)

Prior to liberalization in grain marketing in December 1993 the Board used to receive cereals from overseas under either Food Aid or Loan Programs on behalf of the Government of Kenya. A formal Agency Agreement that is still in force was entered into on 18th January 1990 between the GOK and the Board. The agreement stipulated terms and conditions as well as the accountability procedures to be observed by the Board for these commodities. An Agency Commission of 8% of sales value was charged to meet the Board's management and overhead costs. The balance held on behalf of the Government as at 30th June 2017 remained the same as in previous year.

	<u>2017</u> Kshs	<u>2016</u> Kshs
Balance due to GOK as at year end	<u>143,195,039</u>	<u>143,195,039</u>

26. Creditors – Due to GOK on SGR maize sales

Balance B/F	634,351,602	634,351,602
Sales for the year	<u>10,770,368,643</u>	<u>4,686,930,950</u>
	11,404,720,245	4,945,201,982
Less: Remittances	<u>9,773,991,820</u>	<u>4,310,850,380</u>
Balance due to Gok at year end	<u>1,630,728,425</u>	<u>634,351,602</u>

27. TAXATION

NCPB is a taxable organization and Income Tax Returns have been filed with the Commissioner of Income Tax up to the year of income ended 30th June 2016, which reflected a cumulative taxable losses amounting to Kshs.7, 670,510,791. However Kshs 964,765,588 represents VAT arrears payable to KRA on provision of agencies services to GOK.

28. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit/(loss) to Cash generated from/(used in) operations

	<u>2017</u> Kshs	<u>2016</u> Kshs
Operating profit	265,803,940	265,333,463
Add back		
Depreciation	376,831,492	375,187,754
Amortisation	748,970	2,362,088
Provision for Stock Shrinkage	545,515	3,037,084
Provision for bad and doubtful debts	<u>48,000,000</u>	<u>48,000,000</u>
Operating profit/(loss) before working capital changes	<u>691,929,916</u>	<u>693,920,389</u>
(Increase)/decrease in Trade debtors and other receivables	(96,145,277)	(161,858,218)
(Increase)/decrease in inventories	(1546,229,129)	127,664,518
Increase/(decrease) in trade and other payables	(1,960,450,174)	391,473,773
Increase/(decrease) in Bank Loan	<u>2,691,627,318</u>	<u>0</u>
Cash generated from/(used in) operations	<u>(219,267,346)</u>	<u>1,051,200,462</u>

(b) Analysis of cash and cash equivalents

Cash at bank	2,851,897,350	2,996,067,121
Cash in hand	1,244,523	5,306,808
Cash in Transit	18,507,541	4,234,669
Bank Overdraft	<u>(431,187,701)</u>	<u>(299,070,750)</u>
Cash and cash equivalent at year end	<u>2,440,461,713</u>	<u>2,706,537,848</u>

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017

29. RELATED PARTY DISCLOSURES

Transactions with related parties:

(a) Sales to related parties:

	<u>2017</u> Kshs	<u>2016</u> Kshs
Sales to government Parastatals	235,323,870	433,839,410
Sales to county Governments	<u>117,686,890</u>	<u>3,116,890</u>
Total	<u>353,010,760</u>	<u>426,956,300</u>

(b) Expenses incurred on behalf of related party:

Payment of salaries and wages	<u>976,439,206</u>	<u>980,064,335</u>
-------------------------------	--------------------	--------------------

(c) Key Management Compensation

Directors Expenses	9,885,073	5,946,134
Compensation to Key Management staff	<u>30,409,488</u>	<u>39,888,091</u>
Total	<u>40,294,561</u>	<u>45,834,225</u>

30. CONTINGENT LIABILITIES

Bank guarantees	0	0
Legal claims against the Board	<u>345,180,000</u>	<u>345,180,000</u>
Total	<u>345,180,000</u>	<u>345,180,000</u>

The Board had contingent liabilities amounting to Kshs.345,180,000 as at 30th June 2017 due to pending disputes with suppliers of goods and services together with other individuals who have filed court cases against the Board for various reasons.

31. FINANCIAL RISK MANAGEMENT

The Board's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The company's financial risk management objectives and policies are detailed below:

(i) Credit risk

The Board has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017

The receivables that are past due date relate to trade receivables overdue between 30-120 days. The receivables are not impaired and continue to be paid. However a provision for bad and doubtfully debts is provided and is dealt with in the Income statement.

The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board's directors, who have built an appropriate liquidity risk management framework for the management of the Board's short, medium and long-term funding and liquidity management requirements. The Board manages liquidity risk by maintaining adequate reserves (cash and bank balance), reserve borrowing facilities by through continuous monitoring of forecasts and actual cash flows and matching the maturity profiles of financial assets with liabilities.

(iii) Market risk

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

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

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

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

a) Foreign currency risk

The Board has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate. The effect of such transactions are minimal because they are few, however the result is dealt with in the income statement either as a loss or a gain.

b) Interest rate risk

Interest rate risk is the risk that the Board's financial condition may be adversely affected as a result of changes in interest rate levels. The company's interest rate risk arises from bank interest rate charge on short borrowing. Since the Board working capital has been significantly eroded, it is forced to rely on expensive short-term borrowing from banks but on negotiated terms. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company's borrowings.

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rate charges and with negotiable terms.

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017

iv) Capital Risk Management

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

	<u>2017</u> Kshs	<u>2016</u> Kshs
Revaluation reserve	9,589,422,793	9,589,422,793
Retained earnings	(7,458,499,294)	(7,724,303,233)
Capital reserve	<u>6,304,142,172</u>	<u>6,304,142,172</u>
Total funds	8,435,065,671	8,169,261,732
Total borrowings	3,122,815,019	299,070,750
Less: cash and bank balances	<u>2,871,649,414</u>	<u>3,005,608,598</u>
Net debt/(excess cash and cash equivalents)	<u>(251,165,605)</u>	<u>2,706,537,848</u>
Gearing	(2.98%)	33.13%

32. INCORPORATION

The Board is incorporated in Kenya under the Act of Parliament is domiciled in Kenya.

33. EVENTS AFTER THE REPORTING PERIOD

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

34. CURRENCY

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

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017

VI. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Ref No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.	<p>Procurement of 40,000 Metric Tons of Maize As previously reported, The Board entered into a fixed sum contract Kshs. 730,968,000 on 26th November with a company on 26 November 2004 for the supply 40,000 MT of white maize at US Dollars 229 per MT which was not executed. The supplier sought for arbitration with Kenya Chapter, Institute of Chartered Arbitrators and in July the 2009 was awarded US\$ 3,106,000 for breach of contract. On appeal by the Board, the award was increased to US\$ 6,140,859 being equivalent to Kshs.552,677,382 of which an amount of Kshs.264,864,285 has been settled leaving a balance of Kshs.251,499,614. Although the case is pending in court awaiting its hearing and determination, it is not however, possible to ascertain the extent of the liability that may arise as a result of the claim in question.</p>	<p>The above matter relates to a contract between NCPB and Erad Suppliers & General Contractors for supply and delivery of 40,000 MT of imported maize for purposes of replenishing Strategic Grain Reserves during the drought during 2001/2002 FY. The Supplier failed to deliver the maize within two weeks as envisaged in the contract. The Supplier thereafter referred the matter to an arbitrator citing breach of contract for failing to open a Letter of Credit (LC). NCPB acted as an agent of the Government in the importation of maize.</p> <p>The Supplier claimed that the Government should have availed funds to NCPB for opening the LC being the principal. The matter was heard by the arbitrator who awarded the supplier USD 3,106,000 together with interest of 12%.</p> <p>The Board appealed against the award at the High Court, however the court declined to set aside the award but finally advised that the Court of Appeal was the only avenue NCPB court use to set aside the award.</p> <p>The appeal has been on-going with the application by EACC to be enjoined in the case and to present additional evidence was heard and the court enjoined them but directed that the additional evidence is heard on priority basis.</p> <p>In the event the court of Appeal allows the appeal, the arbitral award will be set aside and directions given by the court on the next course of action. The Board shall therefore apply for restitution for funds confiscated and assets taken during the attachment.</p> <p>If the court dismisses the appeal, the Board shall pay the balance of the decretal sum which will then be passed to the Government. The SFR Board is regularly updated on the matter</p>	John Ngetich Board Secretary	Not Resolved	Case is in Court

ATIONAL CEREALS AND PRODUCE BOARD
 NNUAL REPORT AND FINANCIAL STATEMENTS
 OR THE YEAR ENDED 30TH JUNE 2017

Ref No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		<p>Current Position</p> <p>The court is the only authority which can finally address the amount payable if any or the amount due to the Board if the award is set aside.</p> <p>We wish to clarify that the Kshs. 314 million was collected through garnishee process where the Board's bankers were compelled to freeze the NCPB's bank accounts and transmit the funds to Erad as directed by the court.</p> <p>The matter came up for hearing on 1st March 2017 for the hearing of the additional evidence by EACC. However two Judges requested to reclude due to relationship with the Respondent and the other having previously acted for the Respondent. The court directed that a new hearing be fixed on priority basis before the bench which allowed the additional evidence to be introduced.</p> <p>It is therefore prudent that all cost be accumulated under Gok agency account until such a time the final verdict is issued.</p>			
2.	<p>Current Liabilities</p> <p>i)Taxation As previously reported in the previous year, included also in the current liabilities balance of Kshs.10,826,182,855 as at 30th June 2016 is an amount of Kshs.964,765,588 in respect of Value added tax arrears payable to Kenya Revenue Authority on provision of agencies services to the government. This figure includes Kshs.410,092,367 tax that has remained outstanding since 2002. This amount continues to attract penalties and interest that have not been assessed and incorporated in the financial statements.</p>	<p>During their routine tax audits, Kenya Revenue Authority (KRA) indicated that GoK agency services rendered by NCPB are subject to Value Added Tax (VAT) and the SGR Trustees were advised to either seek exemption from Treasury or budgetary provision to pay the tax amount</p> <p>Several attempts were made to seek exemption from Treasury and eventually the National Treasury through letter ref. DFN 415/411/01 dated 7th February 2013 clarified that agency services are subject to VAT and therefore NCPB should comply with the law. The parent ministry was advised to seek budgetary provision to cover the VAT arrears.</p> <p>NCPB complied immediately by incorporating VAT on all invoices for agency services with effect from 1st January 2013. However VAT assessment for period 2001 to 2012 which was not charged remained unresolved which stood at Kshs[1.8 billion(made up of principal and penalties and interest)]</p>	MD	Not resolved	2017/2018FY

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017

Ref No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		<p>Subsequently KRA issued an agency notice dated 24th April 2013 to all NCPB bankers to recover the tax arrears component for the period 2010 to 2012 amounting to Kshs. 464,430,643.61. The agency notice was enforced and Kshs. 54,338,277.00 taken from NCPB bank accounts leaving a balance of Kshs. 410,092,367. The PS – MOALF intervened to have the bank account unfrozen and further appealed to Treasury to provide funds to cover the tax arrears. The matter was referred to the Strategic Food Reserve Oversight Board who accepted to take the responsibility for the VAT arrears on agency services.</p> <p>The PS-MOALF wrote to KRA on 22nd March 2016 proposing a repayment plan for the principal VAT arrears as approved by SFR Board of KShs. 964.77 million in 3 instalments.</p> <p>However vide their letter dated 6th April 2016, KRA wrote indicating that the payment plan had been rejected indicating that the full settlement should be within a period of twelve months and threatened to effect recovery action.</p> <p>Current Status</p> <p>Following several appeals by NCPB for the matter to be resolved on one hand and efforts by KRA to enforce collection measures on the other hand that resulted into a Notice of distress detaining goods and chattels, the National Assembly Departmental Committee on Agriculture Livestock and Cooperatives took up the matter with a view of finding an amicable solution.</p> <p>The Committee in its sitting on 14th June 2016 directed the CS MOALF and CS National Treasury to meet and find a solution to the matter.</p> <p>They reported back to the Committee on 30th June 2016 where it was agreed that the best option was abandonment of the tax due to difficulty in paying as the budget provision for SFR have reduced substantially.</p> <p>As guided by Commissioner General (KRA), NCPB made a formal request for abandonment vide letter Ref: NCPB/CONF/1/2 dated 5th July 2016 to KRA and</p>			

ATIONAL CEREALS AND PRODUCE BOARD
 NNUAL REPORT AND FINANCIAL STATEMENTS
 OR THE YEAR ENDED 30TH JUNE 2017

Ref No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>ii) Trade Creditors – Kshs 443,536,381</p> <p>Similarly as previously reported, the creditors and provisions balance of Kshs. 6,753,703,604 as disclosed under Note 13 to the financial statements includes an amount of Kshs. 202,291,356 relating to the trade creditors that have been outstanding since July 2012. No satisfactory reason has been given for the failure to settle the liabilities.</p>	<p>the outcome is being awaited. A follow up was made by the PS MOALF vide letter Ref.MOA/LCD/9/4/2/VOL.1V letter dated 6th October 2016.</p> <p>Following the above development where the SGR Board owned up the tax responsibility and the subsequent resolution by the National Assembly Departmental Committees on Agriculture and Co-operatives for abandonment, the entire tax amount will be reversed from NCPB books of account once the approval is granted.</p> <p>These creditors are arising from trading activities and are being reconciled in order to confirm those that are payable and appropriate action taken.</p>	John Gichuru Finance Manager	Not Resolved	30/06/2018
	<p>iii) Outstanding payments and receipts in bank statement</p> <p>Further the statement of financial position reflects an amount of Kshs. 299,070,750 under Bank Overdraft. A review of bank reconciliation statement for the account maintained at KCB KENCOM Branch A/C No. 1107-165-679 revealed amounts of Kshs. 4,169,757 and Kshs. 1,490,672 described as payments in bank not in cash book and receipts in the bank not in cash book respectively, that have been outstanding since June 2015. No explanation has been provided for the amounts. Consequently,</p>	<p>The two amounts are entries in the bank statements which are foreign and whose details the bank has promised to provide. These amounts are still outstanding and has been confirmed by KCB that the matter is receiving attention and that the investigations are still ongoing as per letter Dated 6th March 2017.</p>	Cornel Ngelechey	Not resolved	30/06/2017

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017

Ref No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)																				
3.1	<p>the accuracy of the overdraft amount of Kshs. 299,940,489 as at 30th June 2016 cannot be confirmed.</p> <p>Debtors and Prepayments The Debtors and prepayments balance of Kshs. 545,036,971 as disclosed under Note 6 to the Financial statement includes trade debtor balances totalling Kshs.753,589,267 representing 72% of trade debtors that have been outstanding for more than four (4) years. Although a cumulative bad debts provision of Kshs. 943,557,914 has been provided for in the financial statements, it has not been possible to confirm whether and if so, when the Board will be able to recover the amounts. No action appear to have been taken to ensure recovery of the debts.</p>	<p>We wish to clarify that the amount of Kshs. 987,193,951.00 indicated as older than four years was for 30th June 2015. As at 30th June 2016 the balance outstanding had reduced to Kshs. 753,589,267.00 as summarized below:-</p> <table border="1"> <thead> <tr> <th>CATEGORY</th> <th>AMOUNT (KSHS) 30/06/2015</th> <th>AMOUNT (KSHS) 30/06/2016</th> <th>MANAGEMENT ACTION</th> </tr> </thead> <tbody> <tr> <td>Debts recommended for write off</td> <td>628,084,650</td> <td>628,084,650</td> <td>Board's approval for write off</td> </tr> <tr> <td>Debts Under Litigation</td> <td>56,934,695</td> <td>56,934,695</td> <td>Cases in Court</td> </tr> <tr> <td>Collectable Debts</td> <td>302,174,606</td> <td>68,569,922</td> <td>The balance is being pursued</td> </tr> <tr> <td>Total</td> <td>987,193,951</td> <td>753,589,267</td> <td></td> </tr> </tbody> </table> <p>The management will be presenting recommendations for write off to the Board Members for approval once the write-off policy is approved.</p> <p>That notwithstanding, NCPB has vigorously been pursuing payments of debts including taking legal action against defaulters and currently cases involving Kshs.56.9 million are under litigation. Goods and properties for other defaulters especially for rental arrears have been confiscated and will be sold to defray outstanding rental arrears.</p> <p>However as a prudent measure, NCPB has provided Kshs.943 million as provision doubtful debts.</p>	CATEGORY	AMOUNT (KSHS) 30/06/2015	AMOUNT (KSHS) 30/06/2016	MANAGEMENT ACTION	Debts recommended for write off	628,084,650	628,084,650	Board's approval for write off	Debts Under Litigation	56,934,695	56,934,695	Cases in Court	Collectable Debts	302,174,606	68,569,922	The balance is being pursued	Total	987,193,951	753,589,267		John Gichuru Finance Manager	Not resolved	30/06/2017
CATEGORY	AMOUNT (KSHS) 30/06/2015	AMOUNT (KSHS) 30/06/2016	MANAGEMENT ACTION																						
Debts recommended for write off	628,084,650	628,084,650	Board's approval for write off																						
Debts Under Litigation	56,934,695	56,934,695	Cases in Court																						
Collectable Debts	302,174,606	68,569,922	The balance is being pursued																						
Total	987,193,951	753,589,267																							
3.2	<p>Government Debtors Agency As previously reported, Government Agency Account balance of Kshs. 2,961,873,689 as at 30th June 2016 still</p>																								

**NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017**

Ref No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)								
	<p>includes brought forward figures of Kshs. 342,341,936 and Kshs. 191,916,638 relating to Strategic Grain Reserve programme – old account and GOK 17 selected depots for old account and GOK 17 selected depots for both of which have remained unpaid for over 17 years. It has not been possible to confirm whether and if so, the Board will be able to recover the amounts. No provision for bad debts has been made in this regard.</p>	<p>The outstanding debts are old debts amounting to Kshs.534.26 million as shown below:-</p> <table border="1" data-bbox="494 1008 678 1187"> <thead> <tr> <th>Old Debts</th> <th>Kshs</th> </tr> </thead> <tbody> <tr> <td>i) Cost of Reserved Capacity & Wheat Market Intervention Account on SGR</td> <td>342,341,936</td> </tr> <tr> <td>ii) 17 G.O.K Depots reserved for Famine Relief Programme</td> <td>191,916,638</td> </tr> <tr> <td>Total</td> <td>534,258,574</td> </tr> </tbody> </table> <p>A Committee was constituted comprising officer from MOALF, MOD&P, Treasury and NCPB who went through all NCPB claim. However the final report was not issued to allow implementation of the recommendations.</p> <p>The matter will be finalized once a committee to relook at the claims is reconstituted.</p> <p>However as a prudent measure the management has provided Kshs 280 million as provision for doubtful debts.</p>	Old Debts	Kshs	i) Cost of Reserved Capacity & Wheat Market Intervention Account on SGR	342,341,936	ii) 17 G.O.K Depots reserved for Famine Relief Programme	191,916,638	Total	534,258,574	<p>Cornel Ngelechey GM, F&P</p>	<p>Not Resolved</p>	<p>30/06/2018</p>
Old Debts	Kshs												
i) Cost of Reserved Capacity & Wheat Market Intervention Account on SGR	342,341,936												
ii) 17 G.O.K Depots reserved for Famine Relief Programme	191,916,638												
Total	534,258,574												
3.3	<p>Canon insurance Arbitration</p> <p>The statement of financial position's debtors and prepayments balance of Kshs. 545,036,971 includes an amount of kshs. 20,354,729 being a deposit for a court case between M&S Afagri Trading (PTY) Limited Vs Board. The deposit had been occasioned by a suit between Can Assurance Limited and Afagri Trading Limited. Examination of documents available revealed that the matter arose as a result of an award in 2008 to Afagri Trading Limited to supply 60,000MT of white maize. During delivery, on 20th November 2008, the Board was informed of an explosion on the vessel carrying the maize whereby 6,350MT were damaged</p>	<p>4.4 Canon Insurance Arbitration</p> <p>The Board contracted Afagri (Pty) Limited of South Africa on 8th August, 2008 for the supply of 60,000± 12% metric tons to be shipped on or before 15th November, 2008 in shiploads of 20,000 metric ton. The 1st and 2nd ships arrived safely without any incident. However the Board was informed by the supplier that there had been an explosion on the ship transporting the 3rd consignment.</p> <p>The Ship was arrested by Cannon Assurance Company upon arriving at the port of Mombasa and thus accrued demurrage of USD 211,359.18 by the time it was allowed to sail away after issuing a suitable bank guarantee.</p> <p>The NCPB then claimed from and was paid a sum of Kshs. However, without the knowledge of NCPB the supplier commenced arbitration process in London against M/s. Afagri (Pty) Limited in exercise of their right of subrogation. The Arbitration was instituted in NCPB's name who was the policy holder, while</p>		<p>Resolved</p>									

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017

Ref No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>and declared unfit for human consumption Limited. The maize had been insured against marine perils by Cannon Assurance Ltd. The Board therefore claimed for compensation of damaged maize for Kshs. 217 million shillings which was paid. Further, examination of documents revealed that the insurance company after compensating compensating the Board instituted legal proceedings against the vessel which transported in detaining the vessel that had vessel led to accumulation of demurrage charges totalling to USD 211,359. This was followed up by the insurer (Canon insurance) instituting arbitration proceedings without consulting the Board. The ruling was made in favour of Afagri Trading (PTY) Ltd and the claim of USD 211,359, 4% per annum annum interest, #4,656 cost of arbitration and Kshs. 590,345 taxed bill. This has since been paid by the Board to Afagri Trading PTY Limited. It is not clear why these costs were incurred by the Board since the Board did not instruct the insurance company to sue and detain the vessel. Consequently, the propriety of the cost of Kshs. 20,354,729 incurred by the Board as compensation to Afagri Trading (PTY) Limited cannot be confirmed.</p>	<p>Afagri (Pty) Limited also filed a counterclaim of USD 211,359.18. Cannon Assurance abandoned the case when they realized that they had sued the wrong party and Afagri were awarded their counterclaim.</p> <p>When the arbitration process was abandoned, the counter claim for USD 211,359.18 was left undefended and therefore the arbitrator awarded Afagri the demurrage claim. The Board was thereafter served with the arbitral award for USD 211,359.18 plus interest, arbitration cost #4,656 and taxed cost kshs. 590,345.</p> <p>The arbitral award was domesticated in Kenya and a decree was issued dated 20th May 2013. NCPB brought the matter to the attention of Cannon Assurance who declined to take up the payment and NCPB was therefore forced to settle the claim to avert the proclaimed assets being attached and sold by auctioneers. NCPB brought the matter to the attention of the regulator for actions considered inappropriate by Canon Assurance. They are yet to respond despite several reminders. The Board has since filed a suit against Cannon Assurance for the recovery of Kshs. 20,354,729 as per the attached court pleadings.</p> <p>With the auctioneer having proclaimed and attached NCPB's assets the only recourse available was to settle the judgement award and pursue Canon Assurance for the restitution of the award and any attendant costs.</p> <p>The alternative for NCPB was to disregard the court orders and have the assets proclaimed sold and the management cited for contempt of court.</p> <p>Current Position</p> <p>The Ship owner has proposed a commercial settlement for the parties to be paid and the bank guarantee be released without admission of liability.</p> <p>The amount has since been settled at KShs.24 million inclusive of legal charges</p>			
4.1	<p>Storage Facilities As previously reported, and as disclosed under Note 5 to the financial statements property, plant and equipment balance of</p>	<p>4.1 Storage Facilities It is true that included in the Fixed Asset Register of the Board are fifty five (55) donor funded storage facilities which have not been formally transferred to the</p>			

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
OR THE YEAR ENDED 30TH JUNE 2017

Ref No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>Kshs. 7,054,477,805 602) as at 30th June 2016 still includes fifty five (55) donor funded storage facilities whose ownership has not been clarified. Although in its sitting on 11th August 1998, the Public Investment Committee directed both the parent Ministry and Treasury to look into the matter with a view to formerly transferring the facilities to the Board, no progress appears to have been recorded as at the date of this report.</p>	<p>the Board. As stated in our previous responses, the issue of transfer of fifty (55) donor storage facilities was to be addressed as part of asset divestiture programme. However, the asset divestiture and review of legal framework are the two pending commercialization reform actions, which were left outstanding in previous restructuring programme. The Board has been following this matter with the Government with a reminder done vide letters Ref: NCPB/CONF/1/9 dated 21st February 2017 and 29th November 2016. The National Treasury had in their letter Ref: ZZ 40/64/011 dated 20th December 2013 sought to know whether vesting orders had been issued by the Government being the legal instrument for transfer of assets to the Board. The National Treasury further noted that the Board was undergoing restructuring and the preliminary proposal indicated that it may be split into three entities meaning that the Board will not exist in its current form. It therefore recommended that the transfer of the storage facilities be held in abeyance until such time that it is clear to which entity the facilities will be transferred to.</p>			
t.2	<p>Land As previously reported, the property, plant and equipment figure of Kshs. 7,054,477,805 also includes thirty seven (37) parcels of land that have been costed at Kshs.54,383,887 that do have title</p>	<p>Current Status NCPB has since followed up with the MOALF seeking update on the current status of issuance of vesting orders for the 55 donor funded projects. This has been done vide letter ref: NCPB/CONF/1/9 dated 29th November 2016 and 21st February 2017 respectively. Following a meeting held at the Treasury on 1st March 2017 between National Treasury officers and NCPB to discuss this matter, additional information and documents were sought and have since been submitted vide letter ref: NCPB/CONF./1/9 dated 1st March 2017 and 31st March 2017 respectively (attached as Annex XIII(a) & XIII(b)). We are awaiting for feedback from National Treasury.</p>	John Ngeitch Board Secretary	Not Resolved	30/06/2019

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017


Ref No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)										
	<p>deeds. Information available, indicates that some of the parcels are leased from Kenya Railways Corporation.</p> <p>The above situation is indicative of significant impairment on some of the properties. Consequently it is not possible to ascertain the accuracy of property, plant and equipment balance of Kshs. 7,054,477,805 reflected in the financial statements.</p>	<p>Management comments</p> <table border="1"> <thead> <tr> <th>SUMMARY</th> <th>CURRENT STATUS</th> </tr> </thead> <tbody> <tr> <td>A. Plots Contracted to Surveyors</td> <td>30</td> </tr> <tr> <td>B. Plots Under Kenya Railways</td> <td>5</td> </tr> <tr> <td>C. Plots With Lands Registrar</td> <td>2</td> </tr> <tr> <td>Total Plots</td> <td>37</td> </tr> </tbody> </table> <p>The details are specified below:-</p> <p>a) Plots Contracted to Surveyors</p> <p>The Thirty (30) parcels of land contracted to five surveyors for processing of title deeds, are in various stages of title acquisition</p> <p>b) Land Under Kenya Railways Corporation – 5 plots</p> <p>The five plots under Kenya Railways Corporation are awaiting the completion of Survey and Title Deed preparation process which the organization is currently undertaking, after which they will prepare Long Term Leases for NCPB for registration at the respective Land Registrars.</p> <p>This is in accordance to letter ref. GMB/LS/OP.1 Vol. IV dated 17th September 2013, and letter ref. GMB/LS/OP. 1 Vol. IV dated 26th November 2013.</p> <p>c) Plots with the Land Registrar – 2 Plots</p> <p>There following two parcels of Land whose files are with the Land Registrar – Nairobi are in the process of registration/finalization:-</p> <ol style="list-style-type: none"> 1. Makowe LR. 12852/3 2. Muhoroni Township/180 	SUMMARY	CURRENT STATUS	A. Plots Contracted to Surveyors	30	B. Plots Under Kenya Railways	5	C. Plots With Lands Registrar	2	Total Plots	37			
SUMMARY	CURRENT STATUS														
A. Plots Contracted to Surveyors	30														
B. Plots Under Kenya Railways	5														
C. Plots With Lands Registrar	2														
Total Plots	37														

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017

Ref No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
5.	<p>Staff Costs and Wages The staff costs and wages figure of Kshs. 980,064,335 as disclosed in Note 25 to the financial statements include an amount of Kshs. 6,250,848 in respect of acting allowances paid to employees for periods exceeding six months, contrary to public Service Commission Human Resources Policies and Procedures Manual and the Board's human Resource Policy. The Board is therefore in breach of Public Service Commission human Resource policies and its own Human Resource Policy.</p>	<p>It is true that a number of employees have been working in Acting Capacity for more than recommended Government regulation and NCPB's Human Resource Policy of six months.</p> <p>The Board has been undergoing a restructuring process for the last seven years. Decision to fill positions for senior Managers was deferred; hence, the extended acting appointments.</p> <p>We would like to confirm that the organizational design which was part of the restructuring has now been done and the revised structure has been sent to the Ministry of Agriculture Livestock and Fisheries (MOALF) for concurrency after being approved by the National Cereals and Produce Board Board of Directors.</p> <p>The Board of Directors has also approved confirmation of officers acting in key positions subject to the Board obtaining the necessary approvals and concurrencies from relevant government bodies.</p>	Evans Wasike	Not resolved	30/06/2018
6.	<p>Operating Stock Note 1(e) to the financial statements states that closing stocks have been valued on the basis of first in first out (FIFO) principle, applying the lower of the cost and net realizable value and a provision of stock shortage computed at a rate of 2.2% of the value of the year's purchases. A review of the stock taking documents however revealed that stocks have been valued at an average price. Under the circumstance, the accuracy of the operating stocks figure of Kshs. 910,243,950 as at 30th June 2016 as reflected in the financial statements cannot</p>	<p>We wish to clarify that the closing stock is valued at the end year on the basis of First -in -First out (FIFO) and not weighted average cost per product. Attached is the stock movement and valuation. The title in the initial schedule submitted for audit was inadvertently indicated as weighted average and has since been corrected.</p> <p>As per NCPB policy on valuation a provision of shrinkage of 2.2% of the value of purchase of pulses was made.</p> <p>The stock valuation therefore was as per note 1(e) and NCPB policy. The same will be resolved during next audit review.</p>	Cornel Ngelechey GM, F&P	Not resolved	30/06/2018

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2017

Ref No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
7	<p>ascertained</p> <p>Finance Costs</p> <p>The statement of financial performance as at 30th June 2016 and as disclosed under Note 25 to the financial statements reflects finance costs totaling Kshs 147,846,887. Included in this figure is Kshs. 94,808,230 in respect of bank overdraft and loan interest. However, documents available shows that the Board incurred Kshs 120,172,194 as bank overdraft and loan interest during the period under review resulting to unreconciled difference of Kshs 25,365,964. It is not possible under the circumstances to confirm whether the finance costs figure of Kshs. 147,846,887 as at 30th June 2016 is fairly stated.</p>	<p>The total interest on overdraft and interest on loan was kshs 227,879,283.70 out of which KShs. 147,574,229.30 pertain to loan on fertilizer PIF facility which was paid by MOALF together with the fertilizer subsidy leaving a balance of KShs.80,305,054.40 and together with borrowing commitment fee of KShs. 14,503,174.90 give a total of KShs. 94,808,229.30 as reported in the annual report. The same will be resolved during next audit review</p>	<p>Cornel Ngelechey GM, F&P</p>	<p>Not resolved</p>	<p>30/06/2018</p>


 Managing Director

Date: 16/04/2018


 Chairman of the Board

Date: 16/04/2018