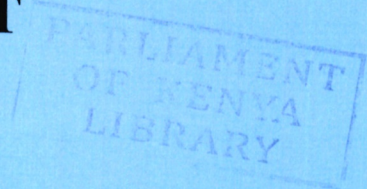


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT



OF



THE NATIONAL ASSEMBLY  
PAPERS LAID

DATE: 12 SEP 2019

THURSDAY

THE AUDITOR-GENERAL

MAJORITY WHIP

A handwritten signature in blue ink, appearing to be "J.M.T.", written over a circular stamp.

ON

THE FINANCIAL STATEMENTS OF  
NATIONAL CEREALS AND PRODUCE BOARD

FOR THE YEAR  
ENDED 30 JUNE 2018





# NATIONAL CEREALS AND PRODUCE BOARD

Leaders in Grain Management

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**NATIONAL CEREALS AND PRODUCE BOARD**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**



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

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

NATIONAL CEREALS AND PRODUCE BOARD  
 ANNUAL REPORT AND FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

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**I. CORPORATE INFORMATION**

**Background information**

National Cereals and Produce Board was established by Chapter 338 Act of Parliament on 8<sup>th</sup> 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. Mutea Iringo, OGW, EBS, CBS - Chairman (Appointed on 28<sup>th</sup> March 2018)
2. Mr. Albin Sang - Ag. Managing Director (Appointed on 23<sup>rd</sup> May 2018)
3. Mr. Newton S. K. Terer - Managing Director (Resigned on 17<sup>th</sup> May 2018)
4. Mr. Silas Magut - Member (Appointed on 2<sup>nd</sup> October 2015)
5. Mrs. Ann Wambaa - Member (Appointed on 2<sup>nd</sup> October 2015)
6. Mr. Nick Hutchinson - Member (Appointed on 2<sup>nd</sup> October 2015)
7. Dr. Francis Gichuki - Member (Appointed on 8<sup>th</sup> August 2016)
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

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**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<br>B.O. Box 48400<br><u>NAIROBI</u> | 2. Cooperative Bank of Kenya<br>B.O.Box 48231<br><u>NAIROBI</u> | 3. Consolidated Bank<br>Koinange Street<br><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<br>State Law Office<br>Harambee Avenue<br>P.O. Box 40112<br>City Square 00200<br>Nairobi, Kenya | 2. <b>Advocates</b><br>Various<br>A list is available at the Board |
|---|--|

II. THE BOARD OF DIRECTORS



**Mutea Iringo, Chairman, OGW, EBS, CBS, ndc (K)**

Born in 1961 was appointed Chairman on 28<sup>th</sup> March 2018. Has over 25 years' experience in public service having started his career as an Assistant Secretary in the Ministry of Local Government, later to the Office of the President as a District Officer, where he rose to become a Senior District Commissioner and later promoted to secretary in charge of internal security.

He served as Permanent Secretary in the Ministry of State for Provincial Administration and later Principal Secretary, Ministry of Interior and Coordination of National Government and Internal Security and finally Principal Secretary Ministry of State for Defence.

Holds a Master's Degree in International Studies and a Bachelor's Degree in Political Science from the University of Nairobi. He is also an alumni of National Defence College (NDC) where he studied policy and strategy formulation. He has trained in management and security in Kenya School of Government and Internationally in USA and Israel.



**Albin Sang, Ag. Managing Director (Appointed on 23<sup>rd</sup> May 2018)**

Albin Ruto Sang holds a Master's Degree in Management of Agricultural Knowledge Systems from the Wageningen Agricultural University (currently Wageningen University and Research) and a Bachelor's degree in Agriculture from the University of Nairobi.

He joined the Civil service in 1983 as a Livestock Production Officer and was later appointed as a Manager of the National Dairy Development Project funded by the Royal Netherlands Government. He worked as a Project Manager for National Dairy Development Project, then as a Senior Deputy Director of Livestock Production in charge of Livestock Research Management.

He is a Board Member of Kenya Forum for Agricultural Advisory Services (KEFAAS) and has been a technical representative of the Department of Livestock on East Africa Community Matters. He has undergone trainings in agriculture and management from different universities and other institutions like University of Colorado; Denver; Egerton University, and Kenya's school of Government.



**Newton S.K. Terer, Managing Director (Resigned on 17<sup>th</sup> May 2018)**

Born 1962, was appointed Managing Director in 2014 and served up to 17<sup>th</sup> May 2018 when he resigned. Before his appointment, he had over 25 years' experience in Banking and Finance, had 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](http://www.waterforfood.org)) Holds a PhD from the Utah State University, USA.



**Phillip T. Makhete, 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.

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**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 5<sup>th</sup> 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.

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III. MANAGEMENT TEAM

**Albin Sang, Ag. Managing Director (Appointed on 23<sup>rd</sup> May 2018)**

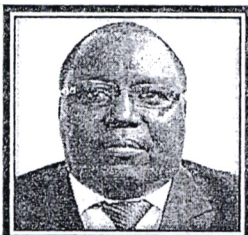


Albin Ruto Sang holds a Master's Degree in Management of Agricultural Knowledge Systems from the Wageningen Agricultural University (currently Wageningen University and Research) and a Bachelor's degree in Agriculture from the University of Nairobi.

He joined the Civil service in 1983 as a Livestock Production Officer and was later appointed as a Manager of the National Dairy Development Project funded by the Royal Netherlands Government. He worked as a Project Manager for National Dairy Development Project, then as a Senior Deputy Director of Livestock Production in charge of Livestock Research

Management.

He is a Board Member of Kenya Forum for Agricultural Advisory Services (KEFAAS) and has been a technical representative of the Department of East Africa Community Matters. He has undergone trainings in agriculture and management from different universities and other institutions like University of Colorado; Denver; Egerton University, and Kenya's school of Government.



**Newton S.K. Terer, Managing Director (Resigned)**

Born 1962, was appointed Managing Director in 2014 and served up to 17<sup>th</sup> May 2018 when he resigned. Before his appointment, he had over 25 years' experience in Banking and Finance, had 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.

**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) 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.

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**John K. Ngetich, Board Secretary**



Joined the Board's Legal Department in 1999 after previously working for Hillian 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 adhered to by all concerned.

**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.

**Titus Kiplimo Maiyo, Corporate Affairs Manager**



Joined the Board as a Regional Sales Representative in 2006 and later became a Public Relations Officer. He has 10 years' experience in Public Relations practice and holds a Master of Science in Communication and Journalism, a Bachelor of Arts in Linguistics; both from Moi University and a Postgraduate-diploma in Mass Communications from Kenya Institute of Mass Communication(KIMC). He is a member of the Public Relations Society of Kenya (PRSK). He is responsible for creating and maintaining a favorable corporate image by communicating the Board's programs, activities and standpoints through elaborate communication policies and strategies.

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**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. He is a member of ICPAK. Responsible for the implementation of an appropriate accounting systems, producing financial reports and maintaining sound financial records.



**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 Njorge 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

Kenya's economy is estimated to have expanded by 4.9 per cent in 2017 compared to a revised growth of 5.9 per cent in 2016. The slowdown in the performance of the economy was partly attributable to uncertainty associated with a prolonged electioneering period coupled with adverse effects of weather conditions. Generally, key macroeconomic indicators largely remained stable and therefore supportive of growth in 2017. Interest rates declined due to the impact of their capping that became effective in September 2016.

In the money market, the Kenyan Shilling strengthened against most of the major trading currencies but weakened against the Euro and the US Dollar in 2017. The current account deficit widened during the year on account of significant growth of imports against a slower growth of exports. There was a moderate build up in inflationary pressures mainly due to significant increase in oil and food prices during the year under review. Consequently, inflation rate rose from 6.3 per cent in 2016 to 8.0 per cent in 2017.

Performance across the various sectors of the economy varied widely, with Accommodation and Food services; Information and Communication Technology; Education; Wholesale and Retail trade; and Public Administration registering accelerated growths in 2017 compared to 2016. On the other hand, growths in Manufacturing; Agriculture, Forestry and Fishing; and Financial and Insurance decelerated significantly over the same period and therefore dampened the overall growth in 2017.

##### Agriculture Subsector Review

The agriculture sector recorded mixed performance in 2017 which led to a decelerated growth of 1.6 per cent compared to 5.1 per cent growth in 2016. Drought coupled with pests such as the fall army worms and diseases led to the overall decline in agricultural production in 2017. Despite reduced production of major crops during the period, better prices were realized for the marketed agricultural output.

Maize production declined from 37.8 million bags in 2016 to 35.4 million bags in 2017 resulting in huge imports of maize to bridge the deficit. Wheat production also declined by 23.1 per cent from 214.7 thousand tonnes in 2016 to 165.2 thousand tonnes in 2017.

##### Financial Highlights

During the period, NCPB was able to post net profit from its core operations amounting to **Kshs.606**million as compared to a profit of **Kshs 265.8** million posted in 2016/2017 FY

##### Key Activities

##### Maize Situation

During the first half of the year, the country experienced food supply deficit which compelled the Government to continue importation of maize under the Food Subsidy Programme to cushion consumers. By the close of the subsidy programme, NCPB had received, cumulatively, 10.4 million x 90 Kg bags out of which 9.8 million bags were sold to millers at subsidised price of Kshs.2,300 per 90 Kg bag. In turn the millers were to sell maize flour at KShs. 90.00 and KShs. 47.00 per 2kg and 1kg respectively. The imports were from Mexico, Ethiopia, South Africa and Zambia.

During the second half of the year, maize supplies in the country increased as the harvesting picked in key maize growing regions of North Rift and Western Kenya. This was further buoyed by high production by neighbouring countries i.e Uganda and Tanzania which resulted in increased cross – border trade arising from from high maize prices in Kenya

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By the close of the purchase season NCPB managed had purchased 6.5 million x 50 Kg bags (3.6 Million bags) of maize valued at Kshs. 11.5 billion at a unit price of Kshs.3,200 per 90 Kg bag

#### Fertilizers Distribution

NCPB imported 125,000 MT of assorted fertilizers worth Kshs. 6.07 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 participated in the wheat subsector by offering storage and cleaning facilities to millers as while as farmers.

#### 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 it 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 commercials 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 to strengthen processes that are key to invigorate corporate performance and effectiveness. This is in line with the envisaged NCPB pivotal role under the government Big 4 Action plan and more particularly Food Security Agenda



Mr. Mutea Iringo, OGW, EBS, CBS  
**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 the role of NCPB under the Government Big 4 Agenda, specifically under Food Security, implementation of restructuring study recommendations, 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 support to government agenda on Food Security, 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

The year under review commenced with food supply deficit resulting into milled flour prices rallying upwards that triggered the Government through NCPB to implement the Food Subsidy Programme.

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

During the year under review, NCPB continued with its turnaround strategies by posting a profit from its operations amounting to Kshs 606 million as compared to a profit of Kshs 265.8 million posted in 2016/2017 FY. The gross sales turnover increased from 7.79 billion in 2016/2017 FY to **Kshs 8.23billion** in 2017/2018 FY due to increased fertilizer sales arising from further reduction of subsidy price to Kshs.1,500 from Kshs.1,800 and conducive weather conditions.

However accumulation of huge debts by the Government amounting to Kshs.11 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. As at the close of the year NCPB had bank obligations amounting to Kshs. 4.5 billion and Kshs.3.5 due to farmers among other pending obligations to other suppliers

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 while as constraint in the purchase of local maize as while as subsidised fertilizers distribution.

During the year NCPB received Kshs. 7.1 billion which was used to purchase 3.6 million bags x 90 Kgs of maize for SFR purposes. However NCPB was still awaiting release of Kshs. 3.6 billion to clear the outstanding debt to farmers for the season's deliveries.

On social interventions, NCPB procured and distributed 414,400 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 125,000 MT of assorted fertilizers at landed cost of Kshs. 6.07 billion which was sold to farmers at subsidized prices. In addition, NCPB received 30,000 MT of assorted fertilizers on behalf of the Government supplied by YWPD and which were also distributed.

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**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).

This process will also be informed by reviews and recommendations made by various Government Departments on challenges encountered during the season's maize purchase process



Zakayo Magara  
**AG. 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.

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The Board has delegated to the Managing Director authority to implement Board decisions with assistance from Management team.

#### **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:

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- 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. Makheta

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. Makheta

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

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practice of corporate accountability and the reporting of specifically associated risks, including emerging 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

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

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.	Mutea Iringo	Chairman	2	-	-	-	-
2.	Albin Sang	Ag. MD	2	-	-	-	-
2	Mr. Newton k. Terer	M D (Resigned)	6	4	4	7	4
3	Silas Magut	Member	10	-	-	7	4
4	Anne M. Wambaa (Mrs),MBs	Member	8	-	-	7	2
5	Nick Hutchinson	Member	9	3	2	3	1
6	Dr. Francis Gichuki	Member	9	3	4	4	=
8	Mr. Vincent M. Ambutsi	Representative - PS Ministry of Devolution & Planning	3	-	-	3	-
9	Philip Makheti	Representative - PS Ministry of Agriculture, Livestock & Fisheries	7	4	4	5	2
10	David Oleshege	Representative -PS National Treasury	5	3	-	-	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 31<sup>st</sup> 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:-

### **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 13<sup>th</sup> 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. 3.8 billion 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 moth-balling 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**

National Cereals and Produce Board has incorporated Corporate Social Responsibility (CSR) as an integral part its operations. The Board's CSR is anchored on a well-defined CSR policy. The following are CSR activities the Board was involved in. The Board's CSR initiatives are centered around wellness, environmental conservation, and community assistance; with emphasis on those economically vulnerable, education and sports and talent development.

Guided by the above, the following are initiatives the Board sponsored or was involved in:

**Wellness.**

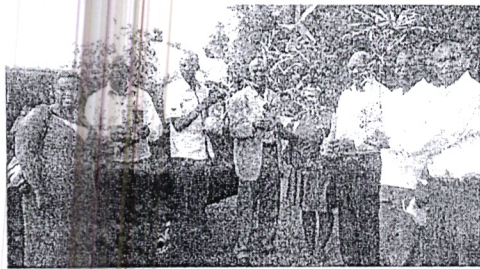
The Board in conjunction with Lions SightFirst Eye Hospital in Loresho Nairobi organized a free eye clinic in Eldoret where more than 500 people were screened for eye problems, with 10 patients being transferred to Nairobi for eye surgery.



**A patient is screened by an eye specialist during the free eye clinic in Eldoret. Next NCPB staff visits patients who were referred for surgery.**

**Environmental Sustainability.**

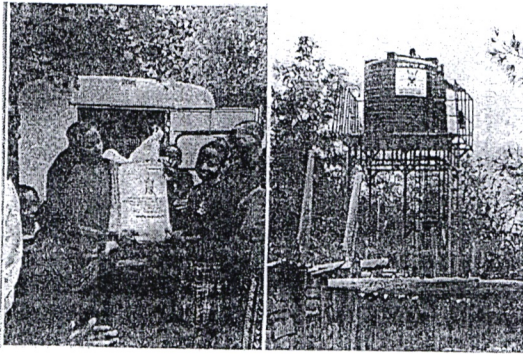
In its effort to encourage environmental conservation, maintains its tree Nursery in Moi's Bridge and from the nursery, it donated tree seedlings to Kosachei secondary school in UasinGishu County for planting by the students and also participated in the World Environment day which was held in Kasagam High School Kisumu. During the event the Board donated 100 bamboo seedlings.



**NCPB staff with Bamboo seedlings donated during the World Environment day in Kisumu.**

**Donations**

The Board identified a number of needy cases and donated to them. In Nakuru, it donated dining tables to Ngala School for the Deaf and also presented a water tank and some foodstuffs to Hope Transitional Centre in Kimana Loitokitok. In addition, the Board participated in the Kenya Freedom from Hunger walk. In Embu, St. Stephen's Children's home received school bags while Tsimba Children's home from Kwale County were given food items.



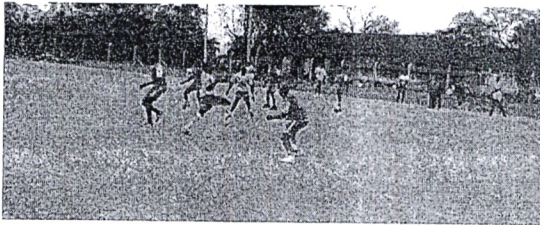
Children of hope Transitional Centre in Kimana Loitokitok receive donations from NCPB staff



Northern Regional Manager Donates school bags and food stuff to St. Stephen's Children's home Embu

#### Sports and Talent development

NCPB continues to nurture sports talent by sponsoring the Board's Handball team, Both men and women. A budget was set aside for the team's activities like training, league matches and regional tournaments



NCPB men's handball team in a past league match.

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**IX. REPORT OF THE DIRECTORS**

The Directors submit their report together with the audited financial statements for the year ended June 30 2018.

**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 30<sup>th</sup> June 2018 are set out on page 25 and summarized below: -

	2018 Kshs	2017 Kshs
Operating profit before Depreciation & Provisions	1,133,641,247	691,384,402
Less:		
Depreciation	374,564,983	376,831,492
Amortization	2,294,275	748,970
Bad and doubtful debts	<u>150,000,000</u>	<u>48,000,000</u>
	<u>526,859,257</u>	<u>425,580,462</u>
<b>Net Profit</b>	<b><u>606,781,989</u></b>	<b><u>265,803,940</u></b>

**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, 2018

By Order of the Board



Mr John K Ngetich  
 BOARD SECRETARY  
 NAIROBI  
21<sup>ST</sup> JUNE 2019

NATIONAL CEREALS AND PRODUCE BOARD  
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**X. STATEMENT OF DIRECTORS' RESPONSIBILITIES**

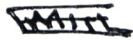
Section 81 of the Public Finance Management Act, 2012, section 14 of the State Corporations Act and National Cereals and Produce Board Act, Cap 338 of the Laws of Kenya require the Directors to prepare financial statements in respect of that NCPB, which give a true and fair view of the state of affairs 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, 2018. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the 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 21<sup>ST</sup> JUNE 2019 and signed on its behalf by:



Chairman



Managing Director

# REPUBLIC OF KENYA

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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 2018

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#### 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 2018, and the statement of profit and loss and other comprehensive income, statement of changes in equity, statement of cash flow, and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015.

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

##### Basis for Disclaimer of Opinion

###### 1. Sale of fertilizer

The statement of profit and loss and other comprehensive income reflects an amount of Kshs.8,216,466,041 under gross sales. As disclosed in Note 1 to the financial statements, the gross sales figure includes an amount of Kshs.7,977,795,840 described as sale of fertilizer, which further include an amount of Kshs.4,447,912,423 relating to fertilizer subsidy receivable from the State Department for Crop Development. The management has, however, not provided any documents showing how this figure was determined. In the absence of supporting documents, it has not been possible to confirm the completeness, accuracy and validity of the cash inflows accrued from fertilizer subsidy sales amounting to Kshs.4,447,912,423 for the year ended 30 June 2018.

###### 2. Other Incomes

The statement of profit and loss and other comprehensive income reflects an amount of Kshs.2,218,540,378 under other incomes and as disclosed under Note 3 to the financial statements includes an amount of Kshs.355,831,170 relating to rental income. Examination of lease documents however revealed that 128 lease agreements had expired some dating

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*Report of the Auditor-General on the Financial Statements of National Cereals and Produce Board for the year ended 30 June 2018*

back to 2013 but the lessees were still occupying the properties. In addition, the Board does not have a policy on management of rental properties. In the circumstances, it is not possible to confirm whether rental income of Kshs.355,831,170 reported for the year ended 30 June 2018 is fairly stated.

### **3. Cost of Sales**

The statement of profit and loss and other comprehensive income reflects an amount of Kshs.6,603,758,017 under cost of sales. The amount includes Kshs.5,749,587,160 in respect of purchases made during the year out of which Kshs.5,339,739,550 relate to purchase of fertilizer. Examination of records relating to purchase of fertilizer, however, revealed that the Board paid Export Trading Company Kshs.76,784,570 in respect of reimbursement for loading, offloading and stacking charges for various brands of fertilizer of 150,000 MT supplied during the year. The payment was made after confirmation by the Accounting Officer State Department for Crop Development vide letter No MOAL&F/FERTILIZER /2016-2017/87 dated 2 May, 2017 that charges were payable though not provided for in the contract. No evidence has been produced for audit review to confirm that these costs were to be incurred by the Board. In the absence of evidence, it is not clear whether the expenditure was a proper charge to public fund.

### **4. Finance Cost**

- (i) The statement of profit and loss and other comprehensive incomes reflects an amount of Kshs.592,540,061 under finance costs, and as disclosed under Note 9 to the financial statements the amounts include Kshs.104,230,875 in respect of bank charges and Kshs.488,309,186 relating to bank overdraft and loan interest. The Board has continued to incur high interest charges on the bank loans for purposes of financing the purchase of subsidized fertilizer through letters of credit from Kenya Commercial Bank which have maturity periods of 180 days. These letters of credits are eventually converted to loans on maturity since the Board has never been able to pay within the agreed period occasioning the high interests charges.
- (ii) Further, the management has not provided documentary evidence to support and show how the bank charges figure Kshs.104,230,875 was determined. Consequently, the validity, completeness and accuracy of the amount of Kshs.104,230,875 cannot be ascertained.

### **5. Bad and Doubtful Debts**

The statement of profit and other comprehensive income for the year ended 30 June 2018 reflects an amount of Kshs.150,000,000 (2017-Kshs.48,000,000) relating to provision for bad and doubtful debts. No explanation or documentation was provided to support the amount. It is, therefore, not clear whether the provision is specific or general.

### **6. Staff Costs and Wages**

The staff costs and wages totalling Kshs.969,414,430 (2017 – Kshs.976,414,430) as disclosed in Note 5 to the financial statements includes an amount of Kshs.17,255,180 (2017 – Kshs.10,839,672) in respect of acting allowances paid to employees for periods exceeding six months contrary to the 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.

## **7. Operating Expenses**

The statement of profit and loss and other comprehensive income for the year ended 30 June 2018 reflects under operating expenses; railway and road transport expenses of Kshs.635,714,112, administrative expenses of Kshs.311,081,773, directors' expenses of Kshs.10,124,439 and other operating expenses of Kshs.178,732,341 that have not been supported with documentary evidence. In the absence of supporting documents, it is not possible to confirm whether the operating expenses totalling Kshs.2,105,067,094 for the year ended 30 June 2018 are fairly stated.

## **8. Property, Plant and Equipment**

### **8.1. Ownership Documents**

As previously reported, and as disclosed under Note 10 to the financial statements, property, plant and equipment net balance of Kshs.6,411,811,785 as at 30 June 2018 still include fifty-five donor funded storage facilities whose ownership has not been clarified. Although in its sitting of 11 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.

### **8.2. Land**

As previously reported, the property, plant and equipment balance of Kshs.6,411,811,785 still include 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.

### **8.3. 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 prices, 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.61,921,667 during the year includes 16% VAT which is a refundable purchase tax as the Board is VAT registered. Consequently, the property, plant and equipment balance of Kshs.6,411,811,785 reflected in the financial statement if not fairly stated.

### **8.4. 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.

## **9. 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. 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.

## **10. Inventories**

As previously reported, 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 year's 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.105,500,591 for stock shrinkage. Examination of the schedules provided for audit revealed that the Board purchased beans, fertilizer and rice at a cost of Kshs.157,643,700, Kshs.5,719,134,745 and Kshs.252,203,910, respectively during the year. However, no workings have been provided to show how the stock shrinkage provision of Kshs.105,500,591 was determined. Under the circumstances, it is not possible to confirm whether the inventories figure of Kshs.1,635,513,148 as at 30 June 2018 is fairly stated.

## **11. Current Liabilities**

The statement of financial position reflects an amount of Kshs.19,363,625,067 under total current liabilities, which comprise of various short term liabilities. A review of the current liabilities revealed the following unsatisfactory matters:

- (i) Note 22 to the financial statements discloses trade payables balance of Kshs.1,935,644,390. This figure however includes Kshs.1,129,439,325.79 owed to Export Trading Company for the supply of fertilizer. It is not clear and the management has not explained how the liability arose since the fertilizer was procured through a letter of credit from Kenya Commercial Bank which was subsequently converted into a loan on maturity.
- (ii) The statement of financial position's trade creditors and other payables balance of Kshs.6,594,894,330 and as disclosed under Note 22 to the financial statements includes a balance of Kshs.3,527,257,567 in respect of amount owed to maize farmers (2017- Kshs.12,420,866) representing an increase of Kshs.2,502,307,382 or 201%. The management has, however, not provided documents to support the figure. In addition, this figure differs with the figure reported in the financial statements of Strategic Food Reserve Fund of Kshs.3,406,940,258 by a variance of Kshs.120,317,307 which has not been reconciled.

- (iii) Trade creditors and other payables further includes sundry payables and provisions figure of Kshs.1,121,134,399. Examination of records, however, revealed that the figure includes Kshs.4,896,012 in respect of excess cash, stale cheques of Kshs.62,952,679 and an amount of Kshs.745,816 described as cash loss. The management has not provided documents to support these figures.
- (iv) Furthermore, Note 26 to the financial statements reflects creditors due to GOK on SGR maize sales balance of Kshs.3,224,248,932 as at 30 June 2018 and includes Kshs.472,544,025 in respect of maize collection for transport costs whose documents were not provided for audit verification. In the absence of documents, it is not possible to confirm the accuracy of this figure.
- (v) As reported in the previous year, included in the total current liabilities balance of Kshs.19,363,625,067 as at 30 June 2018 is an amount of Kshs.964,765,588 in respect of Value Added Tax arrears payable to Kenya Revenue Authority on agencies services to government. This figure includes Kshs.464,430,643.61 tax arrears that have remained outstanding since 2002. Although the tax arrears continue to attract penalties and interest, the same have not been assessed and incorporated in these financial statements.
- (vi) Similarly, and as previously reported, the sundry creditors and provisions balance of Kshs.1,121,134,399 as disclosed under Note 22 to the financial statements includes amounts of Kshs.630,639,332, Kshs.7,359,471 and Kshs.293,269,83 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 a reduction of Kshs.215,883,118 and an increase of Kshs.2,419,594 in respect of trade creditors and staff creditors, respectively during the year, no evidence has been provided for verification showing how the reduction of liabilities was achieved. In addition, no satisfactory reason has been given for failure to settle the liabilities.
- (vii) As reported in the previous year, the statement of financial position reflects an amount of Kshs.308,617,238 against bank overdraft. This figure has however not been supported by a bank reconciliation statement and a bank confirmation certificate. Consequently, the accuracy of the overdraft amount of Kshs.308,617,238 as at 30 June 2018 cannot be confirmed.
- (viii) In addition, the statement of financial position reflects amounts of Kshs.174,063,028 and Kshs.143,195,039 under Creditors – due to GOK on past market intervention and government agency programme (old a/c), respectively that have been outstanding for more than two years. No reasons have been provided to have the balances cleared in these financial statements.

## **12. Trade Debtors and Prepayments**

- (i) As previously reported and as disclosed under Note 13 to the financial statements, trade debtors and other receivables gross balance of Kshs.1,890,901,549 includes trade debtors totalling Kshs.1,541,943,940. However, included in the amount are debtors totalling Kshs.831,604,397 representing 53.9% of trade debtors that have

been outstanding for more than seven years. Although a cumulative bad debts provision of Kshs.943,557,914 has been made in these 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) As previously reported, 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.1,890,901,549, includes Kshs.188,572,981 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 prepayments net balance of Kshs.947,343,634 as at 30 June 2018 is fairly stated.
- (v) During the year under review, the Government Debtors-New Agency A/c balance as disclosed under Note 14 to the financial statements increased by Kshs.8,294,581,903 from Kshs.2,827,107,940 reported in 2016/2017 financial year to Kshs.11,121,689,843. The management has not provided documents for audit review to support the increment.
- (vi) Note 15 to the financial statements reflects Kshs.7,548,486,738 (2017-Kshs.4,211,100,117) relating to Government Debtors-MOA Fertilizer A/c. However, no documents in respect of the same have been produced for audit review. In the absence of documentary evidence, it is not possible to confirm the accuracy of Kshs.7,548,486,738 in respect to Government Debtors-MOA Fertilizer A/c as at 30 June 2018.

In addition, as previously reported, Government Debtors-MOA Fertilizer Account balance of Kshs.7,548,486,738 as at 30 June 2018 still include 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.

### **13. Creditors-Due to GOK on Past Market Interventions**

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 creditors - due to GOK past market intervention. 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 has been produced for verification. In the circumstances, it has not been possible to confirm whether Government Market Interventions Account figure of Kshs.174, 063,026 as at 30 June, 2018 is fairly stated.

### **14. 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, 2018.

### **15. Bank and Cash Balances**

The statement of financial position and as disclosed under Note 16 to the financial statements reflects Kshs.735,035,231 relating to bank and cash balances. No documents have been produced to support the balance. In view of the above, it has not been possible to confirm the accuracy and completeness of the bank and cash balances figure of Kshs.735,035,231 as at 30 June 2018.

### **16. Transactions with the Strategic Grain Reserve Fund**

#### **16.1. Overstated Cost of Imported Maize**

Records maintained by the Board reflects an amount of Kshs.31,288,225,350 as having been the value of maize handled by the Board on behalf of the Strategic Grain Reserve Fund during the year. This amount however differs with the amount of Kshs.37,222,645,795 reflected in the financial statements and Kshs.34,822,028,282 reflected in the Notes to the financial

statements of the Strategic Grain Reserve Fund by Kshs.3,533,802,932 and Kshs.5,934,420,440 respectively. No reconciliations or explanations have been provided for these variances.

## **16.2. Farmers who Supplied Over 10,000 Bags of Maize**

Examination of records maintained by NCPB in the eleven sampled depots, and a review of guidelines issued by the Ministry referenced MOA/LCD/9/12/8018 and dated 1 October 2017 on purchase of maize, did not reveal the maximum bags of maize to be purchased from an individual farmer. There was no requirement for the farmers to provide title deeds, lease agreement or size of the land under cultivation. Although there were no set maximum limits of maize delivery, the practicability of delivering 10,000 bags and above from a single farmer could not be verified given the average production per acre. It was observed that 34 farmers delivered more than 10,000 bags each during the year. No questions were raised by the Board as to the source of such huge consignments.

## **16.3. Out-sourcing of Procurement Function**

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

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

## **16.4. Inventories held on Behalf of the Fund**

The Board holds stock of maize, other cereals and products in their silos on behalf of various parties including private millers. The following unsatisfactory matters were observed in respect of stocks held on behalf of the Strategic Grain Fund:

### **16.4.1. Condemned Maize**

Maize valued at Kshs.342,482,895 and stored in various NCPB depots was found to contain high levels of aflatoxin by the Ministry of Health and therefore not fit for human consumption as analyzed below:

<b>NCPB Depot</b>	<b>Quantity in Bags (90 Kgs)</b>	<b>Value Kshs.</b>
Machakos	10,710	20,809,530
Nairobi	5,427	10,544,661
Meru	14,460	28,095,780
Isiolo	11,663	22,661,209
Migori	1,504	2,922,272

NCPB Depot	Quantity in Bags (90 Kgs)	Value Kshs.
Nakuru	54,597	106,081,971
Lugari	26,264	51,030,952
Kitale	51,640	100,336,520
<b>Total</b>	<b>176,265</b>	<b>342,482,895</b>

In addition, opening stock of Kshs.3,061,708,813 that had been indicated as available in the various Board's depots was written off from the records of the Fund. It is not clear how the amount was written off from the records of the Fund and the Board.

#### 16.4.2. Un Accounted for Bags of Maize

Records maintained by the Strategic Grain Reserve Fund shows that 3,913,098 bags of maize comprising of 287,431 bags and 3,625,667 bags of imported maize and local maize, respectively were in stock as at year end. However, this differs with the store records maintained by the Board, which shows 6,521,481 bags of maize as at year end.

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

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

Consequently, the records maintained by the Board on behalf of the Strategic Grain Reserve Fund are incomplete and inaccurate.

#### 16.4.3. Maize in Silos

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

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

No reason was given for the failure by the Board to have the maize stock properly bagged and stored.

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

#### **16.4.4. Powdered Milk**

Records maintained by the Strategic Grain Reserve Fund shows that the Board has in its stock powdered milk from Kenya Creameries Cooperative (KCC) amounting to Kshs.700,000,000, that has been outstanding in the records for over two years but no record of such stock exists at the Board. Under the circumstances, the existence of the powdered milk stock could not be confirmed.

#### **16.4.5. Annual Stocktaking and Maintenance of Stock Records**

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

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

### **17. Procurement, Delivery and Distribution of Fertilizer on Behalf of Parent Ministry**

#### **17.1. Amount and Value of Fertilizer Ordered**

The State Department of Agriculture ordered 932,000 bags of various types of fertilizer of 50 kilograms each, with the total weightage of 46,600 metric tonnes. Out of these amounts, 40,000 metric tonnes were ordered from M/s Export Trading Company Limited, while the balance of 6,600 metric tonnes were ordered from Access to Government Procurement Opportunities (AGPO) firms. The total value of fertilizer ordered by the State Department was Kshs.2,393,092,810.

In addition, the National Cereals and Produce Board (NCPB) was assigned to order 115,700 metric tonnes of various types of fertilizer by the State Department in the year. The State Department had already in the meantime entered into a contract with the Supplier, M/s Export Trading Company Limited at a cost of Kshs.5,509,776,750. However, the NCPB ordered 103,183.5 metric tonnes of fertilizer only, leaving a balance of 12,516.5 tonnes outstanding at a cost of Kshs.5,719,134,745. No reasons were given for the revision of the contract prices by Kshs.209,357,995 considering the order was less by 12,516.65 tonnes.

The total fertilizer ordered by the two entities in the period amounted to 149,775.25 tonnes, all at a cost of Kshs.8,112,227,555 which was shared between the State Department Kshs.2,393,092,810 and National Cereals and Produce Board Kshs.5,719,134,745, respectively. This procurement exceeded the budget amount of Kshs.5,569,300,200 by Kshs.2,542,927,355.

No reason was given for failure by the State Department to order the full amount of 168,480 tonnes of fertilizer as in the approved budgeted. No explanation was provided for the revised cost of the fertilizer.

### **17.2. The Amount of Fertilizer Delivered in the Year Under Review**

During the year under review, the State Department received 920,274 bags of various types of fertilizer, while the National Cereals and Produce Board received 1,619,178 bags. All these were handled by NCPB in Mombasa. All the bags were said to weigh 50 kilogrammes each, which translates to 126,972.60 tonnes. The delivery was therefore short by 22,802.65 metric tonnes or 456,053 bags of the order.

### **17.3. Distribution of Fertilizer to NCPB Depots**

Records provided for audit on proposed distribution of fertilizer revealed that 1,200,000 bags of DAP, 1,014,000 bags of CAN, 100,000 bags of NPK, 50,000 bags of Blend 4 and 24,000 bags of Blend 9 fertilizers were distributed to various counties for both the short rains in October 2017 and long rains in February 2018. The distribution schedule provided by the State Department, showed that 1,200,000 bags of DAP and 1,014,000 bags of CAN were delivered to NCPB and the State Department required NCPB to have the fertilizer distributed to various depots spread across the Country. Records at NCPB on the other hand shows that NCPB was required to distribute 1,400,000 bags of DAP and 1,014,000 bags of CAN of the fertilizer supplied by M/s Export Trading Company Limited. In addition, it was noted that NCPB could only account for 1,398,977 bags of DAP fertilizer as 1,013 bags had not been delivered to the NCPB. No reconciliation was provided between the data provided by the State Department and the data provided by the NCPB in respect of the same supply of fertilizer.

Further, it is not clear how the additional 200,000 bags of DAP fertilizer were introduced into the system. It is also not clear how the 100,000 bags of NPK, 50,000 bags of Blend 4 and 24,000 bags of Blend 9 fertilizers were distributed.

In addition, the CAN fertilizer delivered by M/s Export Trading Company Limited was said to be of poor quality and at one time its loading and distribution had been suspended until quality issues had to be sorted out. The fertilizer was said to be caked and attempts to make it free flowing was unsuccessful. It is not, however, clear how the quality issue was sorted out as it was eventually distributed.

Further the DAP fertilizer was observed to have inconsistent weights which ranged between 46 and 51 kilogrammes. However, this was eventually sorted out and a minimum average weight of 49.5 kilogrammes was agreed upon.

In addition, the Board had hired an independent company to carry out weights and quality survey on the fertilizer. It is not clear why the Board had failed to seek the services of the Kenya Bureau of Standards. It is also not clear why the independent company failed to raise the observed weaknesses of weight and quality on time.

It was also noted that there was delay in transporting the fertilizer to the respective depots, and this was mainly because owners of trucks would be given the authority to load but would not make their trucks available in time, sometimes waiting up to 48 hours before providing the trucks. While other trucks would be idle but since they had not been authorized to load, they remained unloaded. Delay in loading the fertilizer had the multiplier effect of delaying the delivery of the fertilizer to the respective depots.

Although the roles of handling the fertilizer at the port of entry, its distribution to the depots and the sale to farmers was vested in the National Cereals and Produce Board, the State Department failed to monitor and obtain feedbacks on the intended impact of the procured fertilizer. It is also not clear, how much of the fertilizer that was procured by both the State Department and the National Cereals and Produce Board on behalf of the State Department was sold to farmers.

#### **17.4. Unaccounted Revenue from Sale of Fertilizer**

The State Department for Agriculture did not prepare a Statement of Revenue during the year. It was indicated that the National Treasury had not appointed the Accounting Officer, State Department for Agriculture as a Receiver of Revenue. However, the National Cereals and Produce Board was to bank all revenue realized from sale of local blends of fertilizer that were procured by the State Department from AGPO firms in Kenya Commercial Bank for onward transmission to the State Department's account at the Central Bank of Kenya.

The State Department indicated that NCPB had an accumulated sales receipt of Kshs.1,137,911,500 as at 30 June 2018, while NCPB reported revenue amounting to over Kshs.1,400,000,000. It was indicated that the amount was used to offset debts owed to the NCPB as the State Department had failed to settle its obligations related to subsidy claims by NCPB. This however, is contrary to the requirements of section 76 of the Public Finance Management Act, 2012 which stipulates that, "a receiver of the national government revenue may authorize a public officer employed by the national government or any of its entities to be a collector of revenue for the national government and remit it to the receiver". The State Department explained that the National Treasury had not appointed 'a receiver of revenue' for this kind of revenue for the year, and consequently it was left to the National Cereals and Produce Board.

The State Department indicated that as at 30 June 2018, it had 236,217 bags of various types of fertilizer outstanding in the depots of NCPB. This implies that at least 2,303,235 bags of various types of fertilizer had been sold, which would mean that the NCPB had

collected over Kshs.2.3 billion on sale of fertilizer. Under the circumstances, the total revenue collected could not be confirmed.

#### **17.5. Formal Agreement Between the State Department and the National Cereals and Produce Board on Distribution of Fertilizer**

The assignment contract provides that the State Department is to refund the National Cereals and Produce Board the subsidy on imported fertilizer. The National Cereals and Produce Board sold fertilizers to farmers at subsidized prices of Kshs.1,500 for a 50kg bag of all planting fertilizer (DAP, NPK 23:23:0, NPK 17:17:17) blends and all top dressing fertilizer (CAN, UREA): and Kshs. 1,300 for a 50Kg bag of Sulphate of Ammonia (SA). Although the imported fertilizer for the short rains as well as the blended fertilizers that the State Department procured from AGPO firms were delivered directly to the depots of National Cereals and Produce Board located in various parts of the country, it was noted that no agreement was signed between the State Department and National Cereals and Produce Board about the handling of the fertilizer stocks as well as the sales proceeds. No evidence was provided to show that the State Department carried out any reconciliations for sales made and quantity delivered by, or outstanding from each of the suppliers as at 30 June 2018. However, it was indicated that as at 30 June 2018, there were 236,217 bags of various types of fertilizer in various depots.

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

#### **Conclusion**

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

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

#### **Conclusion**

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

### **Responsibilities of Management and Those Charged with Governance**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for maintaining effective internal control as management determines is necessary to enable the

preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, management is responsible for assessing the Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the management either intends to liquidate the National Cereals and Produce Board or to cease operations, or have no realistic alternative but to do so.

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

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

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

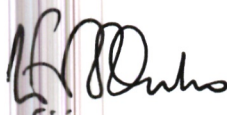
### **Auditor-General's Responsibilities for the Audit**

My responsibility is to conduct an audit of the National Cereals and Produce Board 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 matter described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, my responsibility is to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them, and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution. I also consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. However, because of the matters described under Conclusions on Lawfulness and Effectiveness in Use of Public Resources, and Internal Control, Risk Management and Governance sections of my report,

I was not able to obtain sufficient appropriate audit evidence to provide a basis for audit conclusions.

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



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

**Nairobi**

**18 July 2019**

NATIONAL CEREALS AND PRODUCE BOARD  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

REPORT OF THE INDEPENDENT AUDITORS  
ON NATIONAL CEREALS AND PRODUCE BOARD STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE  
INCOMES

	Note	<u>2018</u> Kshs	<u>2017</u> Kshs
<b>Gross Sales</b>	1	8,216,466,041	7,788,905,646
Cost of Sales	2	<u>6,603,758,017</u>	<u>6,285,099,970</u>
<b>Gross Margin</b>		<b>1,612,708,024</b>	<b>1,503,805,676</b>
Gross Margin Gain as a % of Gross sales		20%	19%
<b>ADD:</b>			
Other Incomes	3	<u>2,218,540,378</u>	<u>1,783,975,455</u>
<b>TOTAL REVENUES</b>		<b>3,831,248,402</b>	<b>3,287,781,131</b>
<b>OPERATING EXPENSES</b>			
Railway and Road Transport	4	635,714,112	815,263,374
Staff costs and wages	5	969,414,430	976,439,206
Administration expenses	6	311,081,773	295,166,874
Directors expenses	7	10,124,439	9,885,073
Other operating expenses	8	<u>178,732,341</u>	<u>128,098,832</u>
		2,105,067,094	2,224,853,358
<b>Profit before depreciation and bad debts</b>		<b>1,726,181,308</b>	<b>1,062,927,773</b>
<b>Deduct:</b>			
Depreciation expense	10	374,564,983	376,831,492
Amortisation expense	11	2,294,275	748,970
Bad and doubtful debts	13	<u>150,000,000</u>	<u>48,000,000</u>
		<u>526,859,257</u>	<u>425,580,462</u>
<b>Profit from operations</b>		<b>1,199,322,051</b>	<b>637,347,311</b>
Finance costs	9	<u>592,540,061</u>	<u>371,543,371</u>
<b>Profit Before Tax</b>		<b>606,781,989</b>	<b>265,803,940</b>
Income Tax expense		-	-
<b>Net profit after tax</b>		<b><u>606,781,989</u></b>	<b><u>265,803,940</u></b>
<b>Other comprehensive income</b>			
Gains on disposal of land		=	=
<b>TOTAL COMPREHENSIVE INCOMES FOR THE YEAR</b>		<b><u>606,781,989</u></b>	<b><u>265,803,940</u></b>


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XI. STATEMENT OF FINANCIAL POSITION

	Note	<u>2018</u> Kshs	<u>2017</u> Kshs
<b>ASSETS</b>			
<b>Non- Current Assests</b>			
Property, Plant and Equipment	10	6,411,811,785	6,724,455,101
Intangible Assets	11	<u>5,592,226</u>	<u>7,886,501</u>
<b>Total Non – Current Assets</b>		<b><u>6,417,404,011</u></b>	<b><u>6,732,341,602</u></b>
<b>CURRENT ASSETS</b>			
Inventories	12	1,635,513,148	2,455,927,565
Trade Debtors and Prepayments	13	947,343,634	378,330,001
Government Debtors – New Agency A/c	14	11,121,689,965	3,481,339,455
Government Debtors – MOA Fertiliser A/c	15	7,548,486,738	4,211,100,117
Bank and Cash Balances	16	<u>735,035,231</u>	<u>2,871,649,414</u>
<b>Total Current Asset</b>		<b><u>21,988,068,716</u></b>	<b><u>13,398,346,552</u></b>
<b>TOTAL ASSETS</b>		<b><u>28,405,472,727</u></b>	<b><u>20,130,688,154</u></b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
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>(6,851,717,305)</u>	<u>(7,458,499,294)</u>
<b>Capital and Reserves</b>		<b><u>9,041,847,660</u></b>	<b><u>8,435,065,671</u></b>
<b>CURRENT LIABILITIES</b>			
Bank Overdraft	20	308,617,238	431,187,701
Short Term Loan	21	4,246,000,000	2,691,627,318
Creditors and Provisions	22	6,594,894,331	3,354,250,076
Creditors – Due to GOK on fertilizer Sales	23	3,707,840,910	2,305,805,307
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	3,224,248,932	1,630,728,425
Taxation	27	<u>964,765,588</u>	<u>964,765,588</u>
<b>Total Current Liabilities</b>		<b><u>19,363,625,067</u></b>	<b><u>11,695,622,483</u></b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b><u>28,405,472,727</u></b>	<b><u>20,130,688,154</u></b>

The financial statements were approved by the Board on 21<sup>st</sup> JUNE 2019 and signed on its behalf by:

  
-----  
Zakayo Magara  
Managing Director

  
-----  
Chairman of the Board

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	(7,724,303,234)	8,169,261,731
Net Profit for the year			265,803,940	269,835,905
At June 30, 2017	6,304,142,172	9,589,422,793	(7,458,499,294)	8,439,097,636
At July 1, 2017	6,304,142,172	9,589,422,793	(7,458,499,294)	8,439,097,636
Net Profit for the year			606,781,989	606,781,989
At June 30, 2018	6,304,142,172	9,589,422,793	(6,851,717,305)	9,045,879,625

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**XIII. STATEMENT OF CASH FLOWS**

	Note	2018 Kshs	2017 Kshs
<b>OPERATING ACTIVITIES</b>			
Cash generated from/used in operations	28	<u>(1,952,122,053)</u>	<u>(219,267,346)</u>
<b>Net cash generated from /used in operating activities</b>		<u><b>(1,952,122,053)</b></u>	<u><b>(219,267,346)</b></u>
<b>INVESTING ACTIVITIES</b>			
Purchase of Property, Plant and Equipment	10	<u>(61,921,666)</u>	<u>(46,808,789)</u>
<b>Net increase /(decrease) in cash and cash equivalent (a)</b>		<u><b>(2,014,043,719)</b></u>	<u><b>(266,076,135)</b></u>
<b>Cash and Cash equivalent at beginning of the year</b>			
Cash at Bank and on Hand	16	<u>2,871,649,414</u>	<u>3,005,608,598</u>
Bank Overdraft	20	<u>(431,187,701)</u>	<u>(299,070,750)</u>
<b>Total (b)</b>		<u><b>24,404,617.13</b></u>	<u><b>2,706,537,848</b></u>
<b>Total (a+b)</b>		<u><b>426,417,994</b></u>	<u><b>2,440,461,713</b></u>
<b>Cash and Cash equivalent at end of the year</b>			
Cash at Bank and on Hand	16	<u>735,035,231</u>	<u>2,871,649,414</u>
Bank Overdraft	20	<u>(308,617,238)</u>	<u>(431,187,701)</u>
		<u><b>426,417,993</b></u>	<u><b>2,440,461,713</b></u>

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XIV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS  
FOR THE YEAR ENDED 30 JUNE 2018

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% + / (-)	Ref no.
	2018	2018	2018	2018	2018		
	Kshs	Kshs	Kshs	Kshs	Kshs		
Revenue							
Gross sales	12,201,151,921	(2,610,968,073)	9,590,183,848	8,216,466,041	(1,373,717,807)	14%	A
Less: Cost of sales	<u>(9,653,395,080)</u>	<u>2,241,983,005</u>	<u>(7,411,412,075)</u>	<u>(6,603,758,017)</u>	<u>807,654,058</u>	-11%	B
Gross margin	2,547,756,841	(368,985,068)	2,178,771,773	1,612,708,025	(576,856,039)		
Add:							
Other Incomes	<u>1,934,352,462</u>	<u>272,085,557</u>	<u>2,206,438,019</u>	<u>2,218,540,378</u>	<u>12,102,359</u>	1%	C
Total income	4,482,109,303	(96,899,511)	4,385,209,792	3,831,248,403	(564,753,680)		
Expenses							
Railway & Transport costs	1,201,794,016	(187,818,781)	1,013,975,235	635,714,112	(378,261,123)	37%	D
Staff costs and wages	1,264,840,708	(180,912,157)	1,083,928,551	969,414,430	(114,514,121)	11%	E
Administration Expenses	651,854,285	(135,947,452)	515,906,833	321,206,211	(194,700,622)	38%	F
Other operating expenses	166,623,630	(21,215,218)	145,408,412	178,732,341	33,323,929	23%	G
Provision	750,000,000	-	750,000,000	526,859,257	(223,140,743)	30%	H
Finance Cost	<u>185,792,916</u>	<u>406,720,410</u>	<u>592,513,326</u>	<u>592,540,061</u>	<u>26,735</u>	0	I
Total expenditure	<u>4,220,905,555</u>	<u>(119,173,198)</u>	<u>4,101,732,357</u>	<u>3,224,466,412</u>	<u>(877,265,945)</u>		
Surplus for the Year	<u>261,203,748</u>	<u>22,273,687</u>	<u>283,477,435</u>	<u>606,781,989</u>	<u>323,304,554</u>		

Explanatory notes on the differences above:

- a) The decrease in gross sales is due to drop in sale of fertilizer
- b) The drop in cost of sales is due to low sales turnover.
- c) The increase in other incomes is due to increased commissions on SFR maize.
- d) The transport costs decreased due to low-transportation of fertilizer from the port to various upcountry depots across NCPB network
- e) The staff costs decreased due to non-implementation of CBA
- f) The decrease in administrative costs is as a result of low maintenance and fumigation costs
- g) Increase in other operating expenses is due to high consumption of industrial oil because of high intake of maize.
- h) Provision for depreciation decrease to due non implementation of capital projects.
- i) Finance costs decrease as a result of interest rate capping by.

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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 <sup>st</sup> 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 <sup>st</sup> 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.

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**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

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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 recognized 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 30<sup>th</sup> 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 12<sup>th</sup> 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 27<sup>th</sup> 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.

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**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 2017-2018 was approved by the National Assembly and subsequently cascaded and the parent ministry communicated the approval on 30th June 2017.

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

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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.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. Gross Sales

	<u>2018</u> Kshs	<u>2017</u> Kshs
Local White Maize	1,476,090	121,005,100
Rice	150,285,776	195,662,790
Paddy	0	22,404,690
Wheat	0	1,302,676,530
Gunnies	51,405	5,535
Insecticides	0	0
Beans	85,601,980	39,353,360
Green Grams	1,254,950	0
Fertiliser	7,977,795,840	6,107,797,641
	<u>8,216,466,041</u>	<u>7,788,905,646</u>

2. Cost of Sales

Opening stocks	2,526,153,798	979,924,66
Purchase	5,749,587,160	7,830,783,589
Milling Costs	-	-
Provision for stock shrinkage (2.2%)	7,123,921	545,514
Closing Stocks	(1,679,710,896)	(2,526,153,799)
<b>Cost of sales</b>	<u>6,603,758,017</u>	<u>6,285,099,970</u>

3. Other Incomes

(a) Revenue from services/facilities

Weigh bridge charges	10,565,113	13,446,220
Bagging and handling charges	7,676,780	44,110,027
Cleaning charges	629,289	3,832,608
Rental charges	355,831,170	293,658,248
Drying and fumigation	55,215,003	69,202,094
	<u>429,917,355</u>	<u>424,249,197</u>

(b) Agency services

Gok agency remuneration	1,729,308,042	1,272,659,314
Agency commission from inputs	0	1,643,672
	<u>2,159,225,397</u>	<u>1,274,302,986</u>

(c) Sundry income

Insurance compensation	0	1,373,016
Sale of tender documents	2,583,408	486,573
Sale of obsolete materials	18,000	24,879
Other miscellaneous income	7,212,420	27,337,189
Other fee and charges	-	-
Gain on disposal of fixed assets	240,000	-
	<u>10,053,828</u>	<u>29,221,658</u>

(d) investment income

Interest earned on short term		
Investments(FDR)	49,261,153	56,201,614
<b>TOTAL OTHER INCOMES</b>	<u>2,218,540,378</u>	<u>1,783,975,455</u>

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4. Railway & Road transport costs	<u>635,714,112</u>	<u>815,263,374</u>
	<u><b>635,714,112</b></u>	<u><b>815,263,374</b></u>
<b>5. Staff Costs</b>		
	<u>2018</u>	<u>2017</u>
	Kshs	Kshs
Salaries and wages	732,631,956	738,605,168
Board's contribution to PF and SSS	83,168,796	114,901,506
Board's contribution to NSSF	1,987,800	2,057,400
Medical expenses	72,951,803	43,820,114
Leave pay and gratuities	13,762,401	17,576,427
Welfare and training	<u>64,911,673</u>	<u>59,478,591</u>
	<u><b>969,414,430</b></u>	<u><b>976,439,206</b></u>
<b>The average number of employees at the end of the year was:</b>		
Permanent Employee – Management	519	303
Permanent Employee - Unionisable	302	488
Temporary and contract Employees	<u>38</u>	<u>85</u>
	<u><b>859</b></u>	<u><b>879</b></u>
<b>6. Administration expenses</b>		
Entertainment	5,743,957	6,159,689
Advertising	4,948,116	5,554,550
Conservancy, light and water	81,274,500	51,368,309
Consumable stores	1,028,484	1,530,251
Insurance	16,723,331	21,171,898
Land rents & rates and siding charges	19,686,613	21,771,704
Maintenance of machinery, furniture & equipment	41,781,775	53,805,113
Maintenance of building, fences, gates, roads and railway sidings	15,852,017	12,361,822
Postage, telegrams and telephone	12,605,535	8,480,089
Printing and stationery	5,654,298	14,068,735
Security expenses	104,318,903	96,843,441
Subscription & Nafaka Newsletter	763,247	682,460
Uniform and protective clothing	567,997	862,613
Donations	<u>133,000</u>	<u>506,200</u>
	<u><b>311,081,773</b></u>	<u><b>295,166,874</b></u>
<b>7. Directors expenses</b>	<u><b>10,124,439</b></u>	<u><b>9,885,073</b></u>
<b>8. Operating Expenses</b>		
Fumigation expenses	213,588	10,677,243
Grain dryers operating costs	49,499,826	28,021,559
Commodity handlings costs	1,326,186	2,916,333
Hired transport (Non commodities)	-	-
Shows and exhibitions	6,932,666	5,138,566
Travelling and subsistence	83,818,719	45,983,759
Vehicles running costs	13,727,330	14,080,948
Audit fee	2,750,000	2,900,000
Legal and other professional fees	<u>20,464,026</u>	<u>18,380,424</u>
	<u><b>178,732,341</b></u>	<u><b>128,098,832</b></u>

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9. Finance Costs

	<u>2018</u> Kshs	<u>2017</u> Kshs
Bank charges	104,230,875	91,151,001
Bank overdraft and Loan interest	<u>488,309,186</u>	<u>280,392,370</u>
	<u><b>592,540,061</b></u>	<u><b>371,543,371</b></u>

10. Property, Plant And Machinery (KShs) - 2018

	Leasehold Land	Fencing Driveways & civil works	Building and Grain Silos	Motor Vehicles	Plant & Machinery & Equipment	WIP	TOTAL
Cost /Valuation							
1/7/2017	943,121,270	422,430,110	9,569,796,619	96,165,981	507,807,340	46,425,665	11,585,746,985
Additions	0	0	10,534,041	8,060,000	38,338,532	4,989,094	61,921,667
Disposals	0	0	0	<u>(2,010,000)</u>	0	0	<u>(2,010,000)</u>
At 30/06/2018	<u>943,121,270</u>	<u>422,430,110</u>	<u>9,580,330,660</u>	<u>102,215,981</u>	<u>546,145,872</u>	<u>51,414,759</u>	<u>11,645,658,652</u>
DEPRECIATION							
1/7/2018	<u>159,882,930</u>	129,334,747	4,031,943,715	75,040,704	465,089,788	0	4,861,291,884
Charge for the Year	12,037,753	10,613,713	334,885,631	8,864,137	8,163,749	0	374,564,983
On disposal	0	0	0	<u>(2,010,000)</u>	0	0	<u>(2,010,000)</u>
30/06/2018	<u>171,920,683</u>	<u>139,948,460</u>	<u>4,366,829,346</u>	<u>81,894,841</u>	<u>473,253,536</u>	0	<u>5,233,846,867</u>
NET BOOK VALUE	<u>771,200,585</u>	<u>282,481,649</u>	<u>5,213,501,313</u>	<u>20,321,140</u>	<u>57,530,352</u>	<u>51,414,759</u>	<u>6,411,811,785</u>

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	<u>943,121,270</u>	<u>422,430,110</u>	<u>9,569,796,619</u>	<u>96,165,981</u>	<u>507,807,341</u>	<u>46,425,665</u>	<u>11,585,746,985</u>
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	<u>13,060,333</u>	<u>10,613,713</u>	<u>337,534,839</u>	<u>6,207,405</u>	<u>9,415,202</u>	0	376,831,492
30/06/2017	<u>159,882,930</u>	<u>129,334,747</u>	<u>4,031,943,715</u>	<u>75,040,704</u>	<u>465,089,788</u>	0	<u>4,861,291,884</u>
NET BOOK VALUE	<u>783,238,338</u>	<u>293,095,362</u>	<u>5,537,852,903</u>	<u>21,125,277</u>	<u>42,717,553</u>	<u>46,425,665</u>	<u>6,724,455,101</u>

11. Intangible Assets

	<u>2018</u> Kshs	<u>2017</u> Kshs
<b>COST</b>		
At July 1	<u>32,006,091</u>	<u>32,006,091</u>
At 30 <sup>th</sup> June	<u><b>32,006,091</b></u>	<u><b>32,006,091</b></u>
<b>AMORTISATION</b>		
At July 1	<u>24,119,590</u>	23,370,621
Charge for the year	2,294,275	748,970
At 30 <sup>th</sup> June	<u>26,413,865</u>	<u>24,119,590</u>
<b>Net Book Value at 30<sup>th</sup> June</b>	<u><b>5,592,226</b></u>	<u><b>7,886,501</b></u>

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12. Inventories

The closing stocks of commodities valued at Kshs 1,415,820,327(2016/2017 Kshs 2,455,927,565) was composed of the following:

	<u>2018</u> Kshs	<u>2017</u> Kshs
<b>(a)Composition of stocks</b>		
Local White maize	19,202,445	20,650,995
Beans	70,881,613	5,664,106
Wheat	0	0
Castor seeds	640	640
Paddy	161,244,490	39,265,305
Local milled rice	65,549,203	13,201,615
Wimbi	55,640	96,760
Green Grams	7,968,311	8,802,160
Fertiliser	1,327,531,344	2,408,882,189
Packaging bags(Jute/pp)	27,265,037	29,577,856
Insecticides	<u>12,173</u>	<u>12,173</u>
<b>Total</b>	<b><u>1,679,710,896</u></b>	<b><u>2,526,153,799</u></b>
<b>(b)stock of consumables</b>		
	<u>63,585,080</u>	<u>30,432,674</u>
<b>Total</b>	<b><u>1,743,295,976</u></b>	<b><u>2,556,586,472</u></b>
<b>Less:</b>		
Provision for stock shrinkage (2.2%)	105,500,591	98,376,670
Provision for obsolete consumable stock	<u>2,282,237</u>	<u>2,282,237</u>
<b>Total provision</b>	<b><u>107,782,828</u></b>	<b><u>100,658,907</u></b>
<b>Total closing stock at year end</b>	<b><u>1,635,513,148</u></b>	<b><u>2,455,927,565</u></b>

13. Trade and Other Receivables

Former Associated Company	160,078	160,078
Debtors for imported Wheat	35,933,464	35,933,464
Trade Debtors	1,541,943,941	1,019,019,082
Staff Debtors	124,291,085	124,912,936
Sundry Debtors and Prepayments	<u>188,572,981</u>	<u>141,790,355</u>
<b>Total</b>	<b><u>1,890,901,549</u></b>	<b><u>1,321,887,915</u></b>
Less: Provision for bad and doubtful debts <b>(b)</b>	<u>943,557,914</u>	<u>943,557,914</u>
<b>Net Trade and Other receivables</b>	<b><u>947,343,635</u></b>	<b><u>378,330,001</u></b>

(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>
<b>Total cumulative provision</b>	<b><u>943,557,914</u></b>	<b><u>943,557,914</u></b>

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

	<u>2018</u> Kshs	<u>2017</u> Kshs
Less than 30 days	46,090,717	63,635,562
Between 30 and 60 days	71,534,429	40,084,701
Between 61 and 90 days	53,498,560	10,077,747
Between 91 and 120 days	62,465,440	11,825,816
Over 120 days	<u>980,825,031</u>	<u>893,467,256</u>
	<u><b>1,214,414,180</b></u>	<u><b>1,019,091,082</b></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 <sup>th</sup> June 2018	Net bal. due 30 <sup>th</sup> June 2017
(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	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Sub Total</b>	<u><b>342,241,936</b></u>	<u><b>0</b></u>	<u><b>342,341,936</b></u>	<u><b>342,341,936</b></u>
(b) Famine Relief Programme				
Balance B/F	83,731,261	664,539,290	(580,808,029)	(1,200,453,435)
Direct expenses for the year	759,849	69,999,360	(69,239,511)	(695,681)
Storage charges	<u>7,433,324</u>	<u>8,100,426</u>	<u>(667,102)</u>	<u>6,814,336</u>
<b>Sub Total</b>	<u><b>91,924,434</b></u>	<u><b>742,639,076</b></u>	<u><b>(650,714,641)</b></u>	<u><b>(1,192,943,418)</b></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	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Sub Total</b>	<u><b>191,916,638</b></u>	<u><b>0</b></u>	<u><b>191,916,638</b></u>	<u><b>191,916,638</b></u>
(d) Strategic Grain Reserve(New A/c)				
Balance B/F	3,191,912,937	933,439,804	2,258,473,133	2,835,668,323
Direct expenses for the year	14,153,714,210	7,303,847,307	7,459,671,962	338,388,400
Storage charges	<u>1,998,564,010</u>	<u>0</u>	<u>1,998,564,010</u>	<u>640,779,256</u>
<b>Sub Total</b>	<u><b>19,344,191,156</b></u>	<u><b>8,237,287,111</b></u>	<u><b>11,716,709,105</b></u>	<u><b>3,814,835,980</b></u>
<b>Total(a+b+c+d)</b>	<u><b>19,970,374,165</b></u>	<u><b>8,979,926,187</b></u>	<u><b>11,600,253,038</b></u>	<u><b>3,156,151,135</b></u>
Less sales proceeds from sale of returned gunnies			0	480,000
			<u><b>11,600,253,038</b></u>	<u><b>3,155,671,135</b></u>
Provision for bad & doubtful debts			478,563,195	328,563,195
<b>Net outstanding balance -30th June 2018</b>			<u><b>11,121,689,843</b></u>	<u><b>2,827,107,940</b></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>2018</u> Kshs	<u>2017</u> Kshs
Balance B/F	<u><b>4,211,100,117</b></u>	4,509,568,104
Add cost for the year	<u><b>4,737,386,619</b></u>	<u><b>2,868,982,888</b></u>
	8,948,486,736	7,378,550,992
Less: Amount received during the year	<u><b>1,400,000,000</b></u>	<u><b>3,167,450,875</b></u>
<b>Balance due from GOK</b>	<u><b>7,548,486,738</b></u>	<u><b>4,211,100,117</b></u>

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16. Bank and Cash Balances

The amount of Kshs 735,035,231 represents bank balances and cash in hand held in the Board's Cash Offices at Head Office and Cash in transit as at 30<sup>th</sup> June 2018.

	<u>2018</u> Kshs	<u>2017</u> Kshs
Cash at Bank	839,246,308	2,851,897,350
Cash in hand	5,850,148	1,244,523
Cash in transit	<u>(110,061,226)</u>	<u>18,507,542</u>
<b>Total cash at Bank and in hand</b>	<b><u>735,035,231</u></b>	<b><u>2,871,649,414</u></b>

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>
<b>a) Current account</b>			
KCB, Coop bank, Consolidated bank and Transnational Bank	104 Bank A/cs	839,246,308	2,851,897,350
Cash in transit		(10,061,226)	18,507,542
cash in hand		<u>5,850,148</u>	<u>1,244,523</u>
<b>Sub- total</b>		<b><u>735,035,231</u></b>	<b><u>2,871,649,414</u></b>
<b>b) bank Overdraft</b>			
<b>Total cash and cash equivalents</b>		<b><u>426,417,993</u></b>	<b><u>2,440,461,713</u></b>

17. CAPITAL FUND

Balance B/F	<u>6,304,142,172</u>	<u>6,304,142,172</u>
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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.534,552,568 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.6,923,946,726 as shown below;

	<u>2018</u> Kshs	<u>2017</u> Kshs
Balance B/F	(7,458,499,294)	(7,724,303,234)
Net profit for the year	<u>606,781,989</u>	<u>265,803,940</u>
	<b><u>(6,851,717,305)</u></b>	<b><u>(7,458,499,294)</u></b>

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 2018 were as follows: -

	<u>2018</u> Kshs	<u>2017</u> Kshs
Main Bank A/c	<u>308,617,238</u>	<u>431,187,701</u>

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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 2018 were as follows: -

	2018 Kshs	2017 Kshs
Balance at beginning of the year	2691,627,318	2691,627,318
Domestic borrowings during the year	1,554,372,682	0
Repayments of domestics borrowings during the year	<u>0</u>	<u>0</u>
<b>Balance at end of the year</b>	<b><u>4,246,000,000</u></b>	<b><u>2,691,627,318</u></b>

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

<b>Domestic Borrowings</b>		
KCB Loan	<u>4,246,000,000</u>	<u>2,691,627,318</u>

22. **Trade Creditors and other Payables**

	2018 Kshs	2017 Kshs
Trade payables	1,935,644,390	2,151,527,508
Creditors – owing to farmers	3,527,257,567	12,420,866
Creditors – staff	10,857,974	8,438,380
Sundry creditors and provisions	<u>1,121,134,399</u>	<u>1,181,863,322</u>
<b>Trade creditors and provisions</b>	<b><u>6,594,894,330</u></b>	<b><u>3,354,250,076</u></b>

**Provision for leave pay**

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

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	2,305,805,307	1,857,033,244
Sales for the year	<u>1,402,035,608</u>	<u>605,508,563</u>
	3,707,840,910	2,462,541,807
<b>Less: Remittances</b>	<u>0</u>	<u>156,736,500</u>
<b>Amount owed to GOK at year end</b>	<b><u>3,707,840,910</u></b>	<b><u>2,305,805,307</u></b>

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,

	2018 Kshs	2017 Kshs
<b>Balance due to GOK as at year end</b>	<b><u>174,063,028</u></b>	<b><u>174,063,028</u></b>

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**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 18<sup>th</sup> 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 30<sup>th</sup> June 2018 remained the same as in previous year.

	<u>2018</u> Kshs	<u>2017</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	1,630,728,425	634,351,602
Sales for the year	<u>20,353,837,592</u>	<u>10,770,368,643</u>
	21,984,566,017	11,404,720,245
Less: Remittances	18,287,773,060	<u>9,773,991,820</u>
Maize collections for transport costs	<u>472,544,025</u>	<u>0</u>
	<u>18,760,317,085</u>	<u>0</u>
<b>Balance due to Gok at year end</b>	<b><u>3,224,248,932</u></b>	<b><u>1,630,728,425</u></b>

**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 30<sup>th</sup> June 2018, 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>2018</u> Kshs	<u>2017</u> Kshs
<b>Operating profit</b>	<b>606,781,989</b>	<b>265,803,940</b>
<b>Add back</b>		
Depreciation	374,564,983	376,831,492
Amortisation	2,294,275	748,970
Provision for Stock Shrinkage	7,123,921	545,515
Provision for bad and doubtful debts	<u>150,000,000</u>	<u>48,000,000</u>
<b>Operating profit/(loss) before working capital changes</b>	<b><u>1,140,765,168</u></b>	<b><u>691,929,916</u></b>
(Increase)/decrease in Trade debtors and other receivables	(11,086,945,704)	(96,145,277)
(Increase)/decrease in inventories	813,290,495	(1546,229,129)
Increase/(decrease) in trade and other payables	5,626,395,307	(1,960,450,174)
Increase/(decrease) in Bank Loan	<u>1,554,372,682</u>	<u>2,691,627,318</u>
<b>Cash generated from/(used in) operations</b>	<b><u>(1,952,122,053)</u></b>	<b><u>(219,267,346)</u></b>

**(b) Analysis of cash and cash equivalents**

Cash at bank	230,458,825	2,851,897,350
Cash in hand	5,850,148	1,244,523

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Cash in Transit	110,061,226	18,507,541
Bank Overdraft	<u>(308,617,238)</u>	<u>(431,187,701)</u>
<b>Cash and cash equivalent at year end</b>	<b><u>426,417,993</u></b>	<b><u>2,440,461,713</u></b>

29. RELATED PARTY DISCLOSURES

Transactions with related parties:

(a) Sales to related parties:

	<u>2018</u>	<u>2017</u>
	Kshs	Kshs
Sales to government Parastatals	0	433,839,410
Sales to county Governments	<u>0</u>	<u>3,116,890</u>
<b>Total</b>	<b><u>0</u></b>	<b><u>426,956,300</u></b>

(b) Expenses incurred on behalf of related party:

Payment of salaries and wages	<u>968,633,469</u>	<u>976,439,206</u>
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(c) Key Management Compensation

Directors Expenses	10,124,439	9,977,579
Compensation to Key Management staff	<u>30,409,488</u>	<u>30,409,488</u>
<b>Total</b>	<b><u>40,533,927</u></b>	<b><u>40,294,561</u></b>

30. CONTINGENT LIABILITIES

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

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

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by the company's management based on prior experience and their assessment of the current economic environment.

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.

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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>2018</u> Kshs	<u>2017</u> Kshs
Revaluation reserve	9,589,422,793	9,589,422,793
Retained earnings	(6,851,717,305)	(7,458,499,294)
Capital reserve	<u>6,304,142,172</u>	<u>6,304,142,172</u>
<b>Total funds</b>	<b>9,041,847,660</b>	<b>8,435,065,671</b>
Total borrowings	4,554,617,238	3,122,815,019
Less: cash and bank balances	<u>735,035,231</u>	<u>2,871,649,414</u>
<b>Net debt/(excess cash and cash equivalents)</b>	<b><u>(3,819,582,007)</u></b>	<b><u>(251,165,605)</u></b>
<b>Gearing</b>	<b>(42.24%)</b>	<b>(2.98%)</b>

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).

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CVI. 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><b>Procurement of 40,000 Metric Tons of Maize</b>                      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 &amp; General Contracts 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

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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><b>Current Position</b></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 1<sup>st</sup> March 2017 for the hearing of the additional evidence by EACC. However two Judges requested to recuse 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><b>Current Liabilities</b></p> <p><b>i)Taxation</b>                      As previously reported in the previous year, Included also in the current liabilities balance of Kshs.10,826,182,855 as at 30<sup>th</sup> June 2016 is an amount of Kshs.964,765,588 in respect if 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 1<sup>st</sup> 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

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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 24<sup>th</sup> 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 22<sup>nd</sup> 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 6<sup>th</sup> 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><b>Current Status</b></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>			

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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><b>ii) Trade Creditors – Kshs 443,536,381</b></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 6<sup>th</sup> 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><b>iii) Outstanding payments and receipts in bank statement</b></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 6<sup>th</sup> March 2017.</p>	Cornel Ngelechey	Not resolved	30/06/2017

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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)																				
	the accuracy of the overdraft amount of Kshs. 299,940,489 as at 30 <sup>th</sup> June 2016 cannot be confirmed.																								
3.1	<p><b>Debtors and Prepayments</b></p> <p>The Debtors and prepayments balance of Kshs. 545,036,971 as disclosed under Note 6 to the Financial statement includes trade debtor balances totaling 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 30<sup>th</sup> June 2015. As at 30<sup>th</sup> 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><b>Total</b></td> <td><b>987,193,951</b></td> <td><b>753,589,267</b></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	<b>Total</b>	<b>987,193,951</b>	<b>753,589,267</b>		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																						
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Collectable Debts	302,174,606	68,569,922	The balance is being pursued																						
<b>Total</b>	<b>987,193,951</b>	<b>753,589,267</b>																							
3.2	<p><b>Government Debtors Agency</b></p> <p>As previously reported, Government Agency Account balance of Kshs. 2,961,873,689 as at 30<sup>th</sup> June 2016 still</p>																								

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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)												
	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, the Board will be able to recover the amounts. No provision for bad debts has been made in this regard.	<p>The outstanding debts are old debts amounting to Kshs.534.26 million as shown below:-</p> <table border="1"> <thead> <tr> <th></th> <th>Old Debts</th> <th>Kshs</th> </tr> </thead> <tbody> <tr> <td>i)</td> <td>Cost of Reserved Capacity &amp; Wheat Market Intervention Account on SGR</td> <td>342,341,936</td> </tr> <tr> <td>ii)</td> <td>17 G.O.K Depots reserved for Famine Relief Programme</td> <td>191,916,638</td> </tr> <tr> <td></td> <td><b>Total</b></td> <td><b>534,258,574</b></td> </tr> </tbody> </table> <p>A Committee was constituted comprising officer from MOALF, MOD&amp;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. 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		<b>Total</b>	<b>534,258,574</b>	Cornel Ngelechey GM, F&P	Not Resolved	30/06/2018
	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															
	<b>Total</b>	<b>534,258,574</b>															
3.3	<p><b>Cannon insurance Arbitration</b></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><b>4.4 Canon Insurance Arbitration</b></p> <p>The Board contracted Afagri (Pty) Limited of South Africa on 8<sup>th</sup> August, 2008 for the supply of 60,000± 12% metric tons to be shipped on or before 15<sup>th</sup> November, 2008 in shiploads of 20,000 metric ton. The 1<sup>st</sup> and 2<sup>nd</sup> 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 3<sup>rd</sup> 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>		Resolved													

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	<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 the Board instituted legal proceedings against the vessel which resulted in detaining the vessel that had transported the maize. The detention of the 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 Afgri 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 Afgri 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 Afgri Trading (PTY) Limited cannot be confirmed.</p>	<p>Afgri (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 Afgri 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 Afgri the demurrage claim. The Board was thereafter served with the arbitral ward 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 20<sup>th</sup> 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><b>Current Position</b></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><b>The amount has since been settled at KShs.24 million inclusive of legal charges</b></p>			
4.1	<p><b>Storage Facilities</b>                      As previously reported, and as disclosed under Note 5 to the financial statements property, plant and equipment balance of</p>	<p><b>4.1 Storage Facilities</b>                      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>			

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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 11<sup>th</sup> 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.</p> <p>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.</p> <p>The Board has been following this matter with the Government with a reminder done vide letters Ref: NCPB/CONF/1/9 dated 21<sup>st</sup> February 2017 and 29<sup>th</sup> November 2016. The National Treasury had in their letter Ref: ZZ 40/64/011 dated 20<sup>th</sup> 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.</p> <p>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> <p><b>Current Status</b>                      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 29<sup>th</sup> November 2016 and 21<sup>st</sup> February 2017 respectively. Following a meeting held at the Treasury on 1<sup>st</sup> 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 1<sup>st</sup> March 2017 and 31<sup>st</sup> March 2017 respectively (attached as <b>Annex XIII(a) &amp; XIII(b)</b>). We are awaiting for feedback from National Treasury.</p>			
4.2	<p><b>Land</b>                      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 costed at Kshs.54,383,887 that do have title</p>	<p>There are thirty seven (37) plots whose title documents have not been acquired by the Board. The matrix below is a summary of the current status of title acquisition for the thirty seven (37) plots:-</p>	John Ngetich Board Secretary	Not Resolved	30/06/2019

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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>	<table border="1" data-bbox="663 411 1326 609"> <thead> <tr> <th></th> <th>SUMMARY</th> <th>CURRENT STATUS</th> </tr> </thead> <tbody> <tr> <td>A.</td> <td>Plots Contracted to Surveyors</td> <td>30</td> </tr> <tr> <td>B.</td> <td>Plots Under Kenya Railways</td> <td>5</td> </tr> <tr> <td>C.</td> <td>Plots With Lands Registrar</td> <td>2</td> </tr> <tr> <td></td> <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>		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																		
		<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> <p>1. Mokowe LR. 12852/3</p>																		
		<p>2. Muhoroni Township/180</p>																		

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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><b>Staff Costs and Wages</b></p> <p>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><b>Operating Stock</b></p> <p>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 30<sup>th</sup> 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 <b>weighted</b> 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

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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)
	ascertained.				
7.	<p><b>Finance Costs</b></p> <p>The statement of financial performance as at 30<sup>th</sup> 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. 25,363,964. It is not possible under the circumstances to confirm whether the finance costs figure of kshs. 147,846,887 as at 30<sup>th</sup> 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>	Cornel Ngelechey GM, F&P	Not resolved	30/06/2018

Managing Director

Chairman of the Board

Date.....

Date.....

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**XVII. APPENDIX 2: INTER-ENTITY TRANSFERS**

Break down of Transfers from the State Department of Agriculture and Devolution and Planning				
FY 17/18				
Date	Received From	Receipt No.	Amount (KShs)	The purpose and FY to which the amounts relate
01-07-2016	MOALF	4063032	10,494,601.20	Fumigation services-March 2016
01-07-2016	MOALF	4063032	5,275,854.00	Fumigation services-April 2016
01-07-2016	MOALF	4063032	6,062,038.80	Commission on purchases-Feb 2016
01-07-2016	MOALF	4063032	3,333,159.15	Transport -March 2016
01-07-2016	MOALF	4063032	13,594,500.00	Purchase of Gunny bags
01-07-2016	MOALF	4063032	9,228,298.80	Fumigation services-February 2016
01-07-2016	MOALF	4063032	1,112,460.20	Commission on purchases-April 2016
01-07-2016	MOALF	4063032	13,385,137.90	Storage - March 2016
01-07-2016	MOALF	4063032	12,461,392.80	storage - April 2016
01-07-2016	MOALF	4063032	4,749,577.10	Commission on purchases-March 2016
01-07-2016	MOALF	4063032	15,901,749.25	storage - February 2016
04-07-2016	MOALF	4063032	147,574,229.25	Interest on PIF Loan
26-09-2016	MOALF	4066779	12,943,782.05	Storage for June 2016
26-09-2016	MOALF	4066779	12,724,341.60	Fumigation for July 2016
26-09-2016	MOALF	4066779	2,921,277.35	Handling for maize sales for June 2016
26-09-2016	MOALF	4066779	504,119.60	Commission on maize sales for June 2016
26-09-2016	MOALF	4066779	292,127.75	Commission on maize handling for June 2016
26-09-2016	MOALF	4066779	12,431,359.00	Storage for July 2016
26-09-2016	MOALF	4066779	955,655.80	commission on purchases for may 2016
26-09-2016	MOALF	4066779	11,035,831.35	Storage for may 2016
26-09-2016	MOALF	4066779	165,309,137.65	Commission for maize sales for June 2016
26-09-2016	MOALF	4066779	75,400,274.25	Transport -July 2016
26-09-2016	MOALF	4066779	26,449,462.00	Vat on sales commission for June 2016
26-09-2016	MOALF	4066779	24,198,545.40	Fumigation for June 2016
26-09-2016	MOALF	4066779	20,019,974.90	Transport - February 2016
26-09-2016	MOALF	4066779	17,746,521.00	Fumigation for June 2016
13-Oct-16	MOALF	4067482	46,740.45	Commission for maize sales
13-Oct-16	MOALF	4067482	218,316,551.60	Commission for maize sales
30-Oct-16	MOALF	4069785	1,000,000,000.00	Purchase of SGR maize
30-Oct-16	MOALF	4069763	6,615,485.55	Storage for September 2016
30-Oct-16	MOALF	4069765	6,287,420.40	Fumigation for September 2016
01-Nov-16	MOALF	4068874	5,245,926.00	Fumigation
01-Nov-16	MOALF	4068874	7,358,651.40	Fumigation
01-Nov-16	MOALF	4068874	10,054,797.40	Storage
01-Nov-16	MOALF	4068874	29,645,667.60	Drying charges
30-Nov-16	MOALF	4071919	382,089,960.00	Purchase of Gunny bags
08-Dec-16	MOALF	4074070	1,000,000,000.00	Purchase of SGR maize
23-Dec-16	MOALF	4074071	4,235,194.80	Fumigation Oct 2016
23-Dec-16	MOALF	4074071	11,232,001.50	Purchase of 400,000 pp bags
23-Dec-16	MOALF	4074071	1,593,584.60	Cleaning and handling
23-Dec-16	MOALF	4074071	4,408,856.55	Storage Oct 2016
23-Dec-16	MOALF	4074071	38,150,000.00	Purchase of 218,000 Jute bags
29-Dec-16	MOALF	4074070	1,000,000,000.00	Purchase of SGR maize
24-Jan-17	MOALF	4075626	4,779,292.80	Fumigation Nov 2016
24-Jan-17	MOALF	4075626	3,541,167.25	Storage Nov 2016
24-Jan-17	MOALF	4075626	190,150.00	Sensitization exercise

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Date	Received From	Receipt No.	Amount (KShs)	The purpose and FY to which the amounts relate
24-Jan-17	MOALF	4075626	29,661,264.15	Commission Nov 2016
24-Jan-17	MOALF	4075626	465,000.00	Gunny bags
24-Jan-17	MOALF	4075626	5,885,103.15	Storage Dec 2016
24-Jan-17	MOALF	4075626	379,997.75	Handling sales June 2015
24-Jan-17	MOALF	4075626	1,120,500.00	Gunny bags
24-Jan-17	MOALF	4075626	56,504.00	Handling sales June 2015
24-Jan-17	MOALF	4075626	104,430,244.55	Purchase commission June 2014
24-Jan-17	MOALF	4075626	85,471,040.25	Commission on purchases Dec 2016
24-Jan-17	MOALF	4075626	37,024,007.20	Storage & fumigation Feb 2015
24-Jan-17	MOALF	4075626	31,555,499.00	Storage & fumigation August 2014
24-Jan-17	MOALF	4075626	31,415,945.45	Storage & fumigation Sept 2014
24-Jan-17	MOALF	4075626	20,818,435.30	Drying charges June 2014
03-Feb-17	MOALF	4076177	3,385,378.00	Fumigation December 2016
13-Feb-17	MOALF	4077137	49,999,579.60	Purchase of SGR maize
13-Feb-17	MOALF	4077137	29,999,248.00	Purchase of SGR maize
13-Feb-17	MOALF	4077137	75,288,316.20	Purchase of SGR maize
14-Feb-17	MOALF	4077313	1,000,000,000.00	Subsidy claims
14-Feb-17	MOALF	4077313	1,000,000,000.00	Subsidy claims
14-Feb-17	MOD&NP	4077645	79,998,720.00	Purchase of SGR maize
15-Mar-17	MOALF	4079541	800,000,000.00	Subsidy claims
16-Mar-17	MOALF	4079684	2,420,685.10	Commission for maize sales
19-Apr-17	MOD&NP	4082210	189,999,360.00	Purchase of SGR maize
20-Apr-17	MOALF	4082325	16,500,000.00	Sale of fertilizer
17-May-17	MOALF	4064306	7,863,207.50	Storage Feb 2017
17-May-17	MOALF	4064306	2,152,641.40	Commission on purchases FEB 2017
17-May-17	MOALF	4064306	7,836,186.05	Storage Jan 2017
17-May-17	MOALF	4064306	4,612,635.60	Fumigation March 2017
17-May-17	MOALF	4064306	20,695,168.80	Commission on purchases Jan 2017
17-May-17	MOALF	4064306	7,101,477.55	Transport cost March 2017
17-May-17	MOALF	4064306	7,554,030.40	Storage March 2017
17-May-17	MOALF	4064306	14,325,507.00	Fumigation Feb 2017
17-May-17	MOALF	4064306	11,329,766.40	Fumigation Jan 2017
06-Jun-17	MOD&NP	4085842	3,480,000.00	Storage at GCP
06-Jun-17	MOD&NP	4085842	38,400,000.00	Purchase of 20,000 bags of maize
06-Jun-17	MOD&NP	4085943	49,998,720.00	Purchase of 26041 bags of maize
<b>Total</b>			<b>8,131,121,024.45</b>	

The above amounts have been communicated to and reconciled with the respective Ministries

Finance Manager  
NCPB

Sign .....

Head of Accounting Unit  
Ministry of Agriculture

Sign.....

Head of Accounting Unit  
Ministry of Devolution and  
National Planning

Sign.....