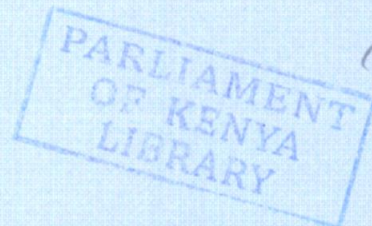


REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE



**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

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

**FOR THE YEAR ENDED  
30 JUNE 2014**

**MINISTRY OF AGRICULTURE, LIVESTOCK  
AND FISHERIES**

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**STRATEGIC GRAIN RESERVE FUND**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED**  
**JUNE 30, 2014**

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

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**I. KEY ENTITY INFORMATION AND MANAGEMENT**

**(a) Background information**

The establishment and maintenance of strategic Grain Reserve (SGR) is articulated in various government policy documents that include:

- Section 13 of Cap 338 of the National Cereals and Produce Board Act.
- The policy Framework paper on Economic Reforms for 1996-1998.
- Section 10.5 of the Interim Poverty Reduction Strategy Paper for the period 2000-2003
- The Legal Notice No. 55 of 15th April 2002 on the Strategic Grain Reserve (Trust Fund Regulations) 2002 of the Exchequer and Audit Act (Cap 412).

In the Policy Framework Paper on Economic Reforms for 1996-1998, the Government committed itself to liberalize the cereals markets by devolving from the National Cereals and produce Board (NCPB) its responsibility of social interventions in grain markets and Opening it up for private participation through the removal of NCPB's monopoly contained in Cap. 338.

The policy decisions culminated in the establishment of the Strategic Grain Reserve Fund by the Legal notice No. 55 of April 2002, pursuant to sections 34(1) and 36 of the Exchequer and Audit Act (Cap.412).

**(b) Principal Activities**

The objective and purpose for which the Fund was established is to provide for the maintenance a target of 6 million \*90kg bags of grains of which 3 million in physical stocks and another 3 million cash equivalent.

The Government, through the SGR, is able to intervene and stabilise local maize market in order protect domestic producers from unacceptably low market prices in times of good harvest. Likewise, it also protects consumers, particularly the vulnerable groups, from unacceptably high market prices in times of supply shortages. It does this by releasing maize in the reserve to the market or in case of shortages of local maize, by importing same.

**(c) Key Management**

The fund's day-to-day management is under the following Principal Secretaries who are also the Board of Trustees:

- Principal Secretaries;
  - i. State department of Agriculture
  - ii. The National Treasury
  - iii. State Department of Devolution
  - iv. State Department of interior and national coordination

**(d) Fiduciary Management**

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2014 and who had direct fiduciary responsibility were:

**STRATEGIC GRAIN RESERVE FUND  
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**(e) Fiduciary Oversight Arrangements**

Reporting and decisions are made at the board of trustee's level.

**(f) Strategic Grain Reserve Fund Headquarters**

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

**(g) Bankers**

The central Bank of Kenya  
Nairobi, Kenya

**(h) Independent Auditors**

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

**(i) Principal Legal Advisor**

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

**STRATEGIC GRAIN RESERVE FUND  
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**II. THE BOARD OF TRUSTEES**

	<b>NAME</b>	<b>Designation</b>
1	Sicily K. Kariuki- State Department of Agriculture.	Trustee
2.	Dr. Kamau Thugge-National treasury.	Trustee
3.	Monica Juma- Interior And National coordination.	Trustee
4.	MwanamakaMabruki-State Department of Devolution	Trustee

**STRATEGIC GRAIN RESERVE FUND  
REPORTS AND FINANCIAL STATEMENTS  
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**III. STATEMENT OF TRUSTEES' RESPONSIBILITIES**

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

The Trustees are responsible for the preparation and presentation of the Strategic Grain Reserve Fund's financial statements, which give a true and fair view of the state of affairs of the Strategic Grain Reserve Fund for and as at the end of the financial year (period) ended on June 30, 2014. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Kenya Citizens and Foreign Nationals Management Fund; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Trustees accept responsibility for the Strategic Grain Reserve Fund's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Trustees are of the opinion that the Strategic Grain Reserve Fund's financial statements give a true and fair view of the state of Kenya Citizens and Foreign Nationals Management Fund's transactions during the financial year ended June 30, 2014, and of the Strategic Grain Reserve Fund's financial position as at that date. The Trustees further confirm the completeness of the accounting records maintained for the entity, which have been relied upon in the preparation of the Strategic Grain Reserve Fund's financial statements as well as the adequacy of the systems of internal financial control.

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

**IV. REPORT OF THE INDEPENDENT AUDITORS ON THE STRATEGIC GRAIN RESERVE FUND**

We have audited the accompanying (consolidated) financial statements of Strategic Grain Reserve Fund for the year ended June 30, 2014, which comprise: (i) a statement of financial performance; (ii) a statement of financial position; (iii) a statement of changes in net assets; (iv) a statement of cash flows; and (v) a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the financial statements**

The Strategic Grain Reserve Fund's Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standards, and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' responsibility**

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Strategic Grain Reserve Funds preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the entity as at June 30, 2014, and its financial performance as well as cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

**STRATEGIC GRAIN RESERVE FUND  
REPORTS AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2014**

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**V. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2014**

	Note	2013-2014 Kshs	2012-2013 Kshs
<b>Revenue from exchange transactions</b>			
Sales from Maize	3	860,917,023	1,234,313,660
		<b>860,917,023</b>	<b>1,234,313,660</b>
<b>Total revenue</b>		<b>860,917,023</b>	<b>1,234,313,660</b>
<b>Expenses</b>			
Cost of Sales	4	865,122,230	1,213,967,561
Other expenses	5	940,316,768	477,818,035
<b>Total expenses</b>		<b>1,805,438,998</b>	<b>1,691,785,596</b>
<b>(Deficit) before tax</b>		<b>(944,521,975)</b>	<b>(457,471,936)</b>
<b>(Deficit )for the period</b>		<b>(944,521,975)</b>	<b>(457,471,936)</b>

# REPUBLIC OF KENYA

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P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON STRATEGIC GRAIN RESERVE FUND FOR THE YEAR ENDED 30 JUNE 2014 - MINISTRY OF AGRICULTURE, LIVESTOCK AND FISHERIES

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#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Strategic Grain Reserve Fund set out on pages 6 to 18, which comprise the statement of financial position as at 30 June 2014, and the statement of financial performance, statement of changes in net assets, statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 8 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

#### **Management's Responsibility for the Financial Statements**

The Accounting Officer, Ministry of Agriculture, Livestock and Fisheries is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (accrual basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

The Accounting Officer is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 6 of the Public Audit Act, 2003.

#### **Auditor-General's Responsibility**

My responsibility is to express an opinion on the financial statements based on the audit and report in accordance with the provisions of Section 9 of the Public Audit Act, 2003. The audit was conducted in accordance with International Standards on Auditing (ISA). Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

### **Basis for Adverse Opinion**

#### **1. Financial Performance**

During the year under review, the Fund recorded a deficit of Kshs.944,521,975.00 (2012/2013 Kshs.457,471,936.00) bringing the accumulated deficit to Kshs.11,598,715,978.00. This state of affairs has been attributed to the multiplicity of expenses including costs of acquisition of maize and gunny bags, and agency fees and commissions charged by National Cereals and Produce Board (NCPB) for services rendered on behalf of the Ministry. No indication has been provided on measures being taken by the Ministry to reduce these expenses and charges, as a result of which, the sustainability of the Fund appears to be at risk as its survival entirely depends on the continued disbursement of grants by the Government.

#### **2. Revenue from Sale of Maize**

The statement of financial performance reflects revenue from sale of maize amounting to Kshs.860,917,023.00. However, sales records maintained by National Cereals and Produce Board, which is the selling agent of the Fund, reflect sales revenue totalling Kshs.941,339,461.00, giving rise to an unreconciled difference of Kshs.80,422,438.00. No explanation has been provided for the apparent understatement of the value of sales by Kshs.80,422,438.00.

#### **3. Expenditure**

##### **i. Purchase of Maize**

The expenditure of Kshs.865,122,230.00 reflected in the statement of financial performance under cost of sales is made up of an opening balance of maize stocks valued at Kshs.6,361,962,351.00, additional purchase of maize valued at Kshs.3,074,472,000.00, and a closing stock of maize valued at Kshs.8,571,312,120.00. However, purchases records maintained by National Cereals and Produce Board, the purchasing agent of the Fund, reflect an expenditure of Kshs.3,072,856,770.00 on purchase of maize. No explanation has been provided for the apparent overstatement of this expenditure item by Kshs.1,615,230.00.

##### **ii. Purchase of Gunny Bags**

The financial statements reflect, under Note 5, an expenditure of Kshs.109,830,561.00 incurred on purchase of gunny bags. However, no documentary evidence was provided

to show that proper procurement procedures were used, or that the bags were purchased, delivered and taken on charge in the stores. Consequently, the propriety of the expenditure could not be ascertained.

### **iii. Transport Costs**

The expenditure of Kshs.940,316,768.00 reflected in the statement of financial performance, under note 5 - other expenses, includes an amount of Kshs.238,313,713.00 incurred on transport costs. However, no documentary evidence was provided to show who the transporters were, how they were identified and engaged, and details of the transport services they offered. Consequently, the propriety of the expenditure could also not be ascertained.

### **iv. Storage and Fumigation**

The expenditure of Kshs.940,316,768.00 reflected in the statement of financial performance under other expenses includes, as shown under note 5, an expenditure of Kshs.281,439,987.00 incurred on storage and fumigation. However, no analysis has been provided to show the specific depots where fumigation was carried out. Besides, records available indicate that fumigation was not carried out in depots in the Lake-Western Region. As a result, the propriety of the expenditure of Kshs.281,439,987.00 on storage and fumigation could not be ascertained.

## **4. Cash and Cash Equivalents**

- i. The statement of financial position reflects cash and cash equivalents balance of Kshs.511,535,656.00, while the bank reconciliation statement as at 30 June 2014 reflects a balance of Kshs.14,510,526.95, giving rise to an unreconciled difference of Kshs.497,025,129.05.
- ii. A Board of Survey Report and cashbook extract as at 30 June 2014 were not availed to support the cash and cash equivalents balance.

No explanation has been provided for the difference and for failing to avail the Board of Survey Report and cashbook, as a result of which, the accuracy of the cash and cash equivalents balance of Kshs.511,535,656.00 could not be confirmed.

## **5. Inventories**

- i. The statement of financial position reflects an inventories balance of Kshs.8,761,481,560.00 which, according to note 7, comprises Kshs.8,571,312,120.00 and Kshs.190,169,440.00 being stocks of maize and gunny bags, respectively. However, supporting documents reflect stock balances of Kshs.8,002,514,457.00 for maize and Kshs.96,390,512.00 for gunny bags, resulting to an unreconciled difference of Kshs.568,797,663.00 and Kshs.93,778,928, respectively. No explanation has been provided for the differences, as a result of which, the accuracy of the inventories balance of

Kshs.8,761,481,560.00 reflected in the financial statements could not be confirmed.

- ii. The closing stocks of gunny bags valued at Kshs.100,000,000.00 reflected in the audited financial statements for the year ended 30 June 2013 have not been reflected as opening balance in the financial statements for the year ended 30 June 2014. Again, no explanation has been provided for the omission, as a result of which, the accuracy of the inventories balance could not be confirmed.

## 6. Receivables

The statement of financial position reflects a balance of Kshs.7,030,669,138.00 under receivables. However, no schedules, analyses or any documentary evidence was provided to support the balance. No explanation has been given for failing to provide supporting documentation and schedules or analyses, as a result of which, the completeness and accuracy of the receivables balance could also not be confirmed.

## 7. Trade and Other Payables

- i. The statement of financial position reflects a trade and other payables balance of Kshs.1,520,889,290.00 while supporting schedules and other records reflect a balance of Kshs.1,316,194,419.00, giving rise to an unreconciled and unexplained difference of Kshs.204,694,871.00.
- ii. Although the Fund reflects a cash balance of Kshs.511,535,656.00 as at 30 June 2014, the trade and other payables balance of Kshs.1,520,889,290.00 includes long outstanding payables totalling Kshs.566,879,296.50 relating to 2012/2013 and prior years, as shown below:-

Prior to 2011/2012	36,000,000.00
2011/2012	137,215,708.50
2012/2013	<u>393,663,588.00</u>
	<b><u>566,879,296.50</u></b>

- iii. The trade and other payables balance also includes payables amounting to Kshs.354,294,814.10 said to be under dispute. However, the nature of the dispute has not been disclosed neither has any evidence been provided to show any efforts being made to resolve the dispute.
- iv. Also included in the balance of Kshs.1,520,889,290.00 is, according to note 9, amounts owed to farmers totalling Kshs.84,472,000.00. However, no schedules, analyses or any documentary evidence was availed to support the amount.

No explanation has been given on these anomalies, as a result of which, the accuracy, completeness and valuation of the payables balance could not be confirmed.

## **8. Government Grants and Reserves**

The financial statements indicate that during the year under review, the Government injected grants totalling Kshs.3,119,201,264.00 - being the difference between the Reserves balance of Kshs.23,262,311,779.00 for the year ended 30 June 2013 and Kshs.26,381,513,043.00 for the year ended 30 June 2014. However, the financial statements of the Ministry of Agriculture, Livestock and Fisheries for the year ended 30 June 2014 reflects grants to the Fund totalling Kshs.2,850,000,000.00 while records maintained at National Cereals and Produce Board reflects Government grants totalling Kshs.3,190,000,000.00. No reconciliation or explanation has been given on the differences between the three sets of records, as a result of which, the accuracy of grants to the Fund during the year under review could not be confirmed.

## **9. Accuracy of the Financial Statements**


The balances reflected in the financial statements have not been supported by a trial balance as at 30 June 2014. No explanation has been provided for failing to produce a trial balance, as a result of which, the completeness and accuracy of the financial statements could not be confirmed.

## **10. Agency Agreement**

The current Agency Agreement between the Government and National Cereals and Produce Board, which outlines the terms of engagement between the two parties, has not been signed. Consequently, any contracts carried out between the two parties may not be enforceable in law.

## **Adverse Opinion**

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraph, the financial statements do not present fairly the financial position of the Fund and its operations for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and the Public Finance Management Act, 2012 of the Laws of Kenya.



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

**Nairobi**

**13 April 2015**

STRATEGIC GRAIN RESERVE FUND  
 REPORTS AND FINANCIAL STATEMENTS  
 FOR THE FINANCIAL YEAR ENDED JUNE 30, 2014

X. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

	Note	2013-2014 Kshs	2012-2013 Kshs
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	511,535,656	322,303,664
Inventories	7	8,761,481,560	6,461,962,351
Receivables	8	7,030,669,138	6,865,220,613
		<b>16,303,686,355</b>	<b>13,649,486,627</b>
<b>Non-current assets</b>			
		-	-
<b>Total assets</b>		<b>16,303,686,355</b>	<b>13,649,486,627</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables from exchange transactions	9	1,520,889,290	1,041,368,852
		<b>1,520,889,290</b>	<b>1,041,368,852</b>
<b>Non-current liabilities</b>			
		-	-
<b>Total liabilities</b>		<b>1,520,889,290</b>	<b>1,041,368,852</b>
<b>Net assets</b>		<b>14,782,797,064</b>	<b>12,608,117,775</b>
Reserves		26,381,513,043	23,262,311,779
Accumulated Deficit		(11,598,715,978)	(10,654,194,004)
<b>Total net assets</b>		<b>14,782,797,064</b>	<b>12,608,117,775</b>

The Financial Statements set out on pages 7 to 26 were signed on behalf of the Fund by:



Principal Secretary

Date.....30/09/2014



Head of Accounting Unit

Date.....30/09/2014

**STRATEGIC GRAIN RESERVE FUND  
 REPORTS AND FINANCIAL STATEMENTS  
 FOR THE FINANCIAL YEAR ENDED JUNE 30, 2014**

**XI. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2014**

	Accumulated Capital Reserves Kshs	Accumulated surplus Kshs	Total Kshs
<b>Balance as at 30 JUNE 2012</b>	23,262,311,779	(10,196,722,068)	13,065,589,711
			-
Surplus/(deficit) for the period	-	(457,471,936)	457,471,936
<b>Balance as at 30 JUNE 2013</b>	<b>23,262,311,779</b>	<b>(10,654,194,004)</b>	<b>12,608,117,775</b>
			-
Surplus for the period	-	( 944,521,975 )	(944,521,975)
Transfers to/from accumulated surplus	3,119,201,264	-	3,119,201,264
<b>Balance as at 30 JUNE 2014</b>	<b>26,381,513,043</b>	<b>- 11,598,715,978</b>	<b>14,782,797,064</b>

STRATEGIC GRAIN RESERVE FUND  
 REPORTS AND FINANCIAL STATEMENTS  
 FOR THE FINANCIAL YEAR ENDED JUNE 30, 2014

**XII. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2014**

	Note	2013-2014 Kshs	2012-2013 Kshs
<b>Cash flows from operating activities</b>			
Net cash flows from operating activities	10	(2,929,969,271)	(1,335,995,339)
<b>Cash flows from investing activities</b>			
Net cash flows used in investing activities		-	-
<b>Cash flows from financing activities</b>			
Government Grants		3,119,201,264	1,375,000,000
Net cash flows used in financing activities		3,119,201,264	1,375,000,000
Net increase/(decrease) in cash and cash equivalents		189,231,993	39,004,661
Cash and cash equivalents at 1 JULY		322,303,664	283,299,003
Cash and cash equivalents at 30 JUNE		511,535,656	322,303,664

**STRATEGIC GRAIN RESERVE FUND  
REPORTS AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2014**

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**XIII. NOTES TO THE FINANCIAL STATEMENTS**

**1. Statement of compliance and basis of preparation**

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

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

**2. Summary of significant accounting policies**

**a) Revenue recognition**

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

**Transfers from other government entities**

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably.<sup>2</sup>

**ii) Revenue from exchange transactions**

***Sale of goods***

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

**b) Budget information**

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

STRATEGIC GRAIN RESERVE FUND  
REPORTS AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2014

XIII. NOTES TO THE FINANCIAL STATEMENTS (continued)

2. Summary of significant accounting policies (continued)

c) **Financial liabilities**

*Initial recognition and measurement*

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

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

d) **Inventories**

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

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

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

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

e) **Provisions**

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

Where the Entity expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

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

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**XIII. NOTES TO THE FINANCIAL STATEMENTS (continued)**

**2. Summary of significant accounting policies (continued)**

**f) Provisions (continued)**

*Contingent liabilities*

The Entity does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

*Contingent assets*

The Entity does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Entity in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

**g) Nature and purpose of reserves**

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

**h) Changes in accounting policies and estimates**

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

**i) Related parties**

The Entity regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa. Members of key management are regarded as related parties and comprise the Board of Trustees and Food Management Unit (FMU).

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**XIII. NOTES TO THE FINANCIAL STATEMENTS (continued)**

**2. Summary of significant accounting policies (continued)**

**j) Cash and cash equivalents**

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

**k) Comparative figures**

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

**l) Significant judgments and sources of estimation uncertainty**

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

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**XIII. NOTES TO THE FINANCIAL STATEMENTS (continued)**

**2. Summary of significant accounting policies (continued)**

**q) Significant judgments and sources of estimation uncertainty**

*Estimates and assumptions*

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

*Useful lives and residual values*

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

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

**m) Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2014.

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**3. Sale of Maize**

	2014 Shs	2013 Shs
Sale of Maize	860,917,023	1,234,313,660
	<b>860,917,023</b>	<b>1,234,313,660</b>

<b>4. Cost of Sales (Maize)</b>	<b>Bags</b>	2014 Shs	2013 Shs
Balance b/d	2,347,219	6,361,962,351	5,634,103,004
Add: purchases	1,024,824	3,074,472,000	1,941,826,908
	3,372,043	9,436,434,351	7,575,929,912
Less: Closing stock	2,998,472	8,571,312,120	6,361,962,351
Cost of sales	373,571	865,122,230	1,213,967,561

**5. Other expenses**

	2014 Shs	2013 Shs
Transport cost	238,313,713	49,021,099
Handling costs on transfers	-	1,132,128
Storage and fumigation	281,439,987	266,717,373
Handling costs on sales	88,754,807	714,913
Drying charges	17,946,927	
Purchase commission	121,236,679	70,770,770
Handling costs on purchases	-	1,846,194
10% commission on Transport cost		4,902,110
10% Commission on Handling costs on transfers		113,213
10% commission on Handling costs on sales		71,491
10% Commission on Handling costs on purchases		184,619
9% commission on sales		40,699,932
16% VAT adjustments on commission	82,794,094	41,644,192
Gunny bags	109,830,561	
<b>Total Other expenses</b>	<b>940,316,768</b>	<b>477,818,035</b>

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**6. Cash and cash equivalents**

	2014 Shs	2013 Shs
Bank	511,535,656	322,303,664
<b>Total cash and cash equivalents</b>	<b>511,535,656</b>	<b>322,303,664</b>

**7. Inventories**

The following are included in general expenses:

	2014 Shs	2013 Shs
Bags of maize	8,571,312,120.32	6,361,962,350.55
Gunny bags	190,169,440.00	100,000,000.00
<b>Total Inventories</b>	<b>8,761,481,560</b>	<b>6,461,962,351</b>

**8. Receivables from exchange transactions**

	2014 Shs	2013 Shs
<b>Current receivables</b>		
Other exchange debtors	7,030,669,138	6,865,220,613
Less: impairment allowance	-	-
<b>Total current receivables</b>	<b>7,030,669,138</b>	<b>6,865,220,613</b>

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

	<b>2014</b>	<b>2013</b>
	<b>Shs</b>	<b>Shs</b>
Balance b/d	1,041,368,851.65	1,071,532,908.40
Storage and fumigation	281,439,986.80	266,717,373.30
16% VAT	45,030,397.89	30,291,329.95
Stock relocation expenses	238,313,713.41	
16% VAT	1,963,574.10	
Sales commission and handling	88,754,807.34	71,491.25
16% VAT	14,022,660.51	
Drying charges	17,946,927.00	
16% VAT	2,871,508.32	-
Purchases commission	121,236,679.20	70,770,770.00
16% VAT	18,905,953.15	-
Owed to farmers	84,472,000.00	
Paid during the year	(435,437,769.06)	(2,449,808,999.25)
Handling costs on transfers		1132128
Handling costs on purchases		1,846,194.00
Handling costs on sales		714,912.55
Transport costs		49,021,099.15
9% Sales commission		40,699,931.85
10% commission on transport		4,902,109.90
10% commission on handling of purchase		184,619.40
10% Commission on handling cost transfers		113,212.80
16% VAT on purchases		11,352,862.35
Purchase of SGR stocks		1,941,826,908.00
<b>Total trade and other payables</b>	<b>1,520,889,290</b>	<b>1,041,368,852</b>

**STRATEGIC GRAIN RESERVE FUND  
 REPORTS AND FINANCIAL STATEMENTS  
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**10. Cash generated from operations**

	<b>2014</b>	<b>2013</b>
	<b>Shs</b>	<b>Shs</b>
<b>Surplus for the year before tax</b>	<b>(944,521,975)</b>	<b>(457,471,936)</b>
Adjusted for:		
Depreciation	-	-
(Increase ) receivables	(165,448,525)	(20,500,000)
(Increase) in inventories	(2,299,519,210)	(827,859,347)
Increase/(Decrease) in payables	479,520,439	(30,164,057)
<b>Net cash flows from operating activities</b>	<b>(2,929,969,271)</b>	<b>(1,335,995,339)</b>

**11. Events after the reporting period**

There are no material events after the reporting date.

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**IV. 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. All previous audit queries were resolved under the Ministry of Devolution and Planning.

<b>Reference No. on the external audit Report</b>	<b>Issue / Observations from Auditor</b>	<b>Management comments</b>	<b>Focal Point person to resolve the issue</b>	<b>Status:</b>	<b>Timeframe:</b>
974	<b>Stocks</b> The stocks balance of Kshs.6,361,962,350.35 composed of 2,347,219 bags of maize reflected in the balance sheet as at 30 June, 2013 includes 94,154 bags of maize valued at about Kshs.255,197,407.00 reported as normal loss. No provision has been made for the loss in the Trust Fund's financial statements. Moreover, the balance has not been supported with stock records and adequate documentation. It has not been possible in the circumstances to confirm that the carrying value of stocks figure of Kshs.6,361,962,250.35 as stated in the financial statements reflect the fair values of the stocks as at the balance sheet date.	Resolved under the Ministry of Devolution and Planning	Resolved under the Ministry of Devolution and Planning	Resolved under the Ministry of Devolution and Planning	Resolved under the Ministry of Devolution and Planning
975	<b>Gunny Bags</b> i). The Strategic Grain Reserve Fund Trustees in December 2012 transferred cash	Resolved under the Ministry of Devolution and Planning	Resolved under the Ministry of Devolution and Planning	Resolved under the Ministry of Devolution and Planning	Resolved under the Ministry of Devolution and Planning

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Reference on the Annual Audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Timeframe:
	<p>amounting to Kshs.100,000,000.00 from the Fund's account at Central Bank to National Cereals and Produce Board (NCPB) to facilitate purchase of gunny bags. Later, in June 2013, an additional Kshs.100,000,000.00 was transferred to the Fund's Kenya Commercial Bank (KCB) Account No.1141385120 similarly for purchase of the gunny bags. No authority or minutes of the meeting of Strategic Grain Reserve Trustees in support of these withdrawals were provided for audit review. It has not, therefore, been possible to ascertain whether the withdrawals and the proposed procurement complied with Clause 6(1) of the Exchequer and Audit (Strategic Grain Reserve Trust Fund) Regulations, 2002 which requires that such expenditure shall be on the basis of and limited to the annual work programmes and cost estimates which shall be submitted to the Trustees for Approval.</p> <p>(ii). Although the amount of Kshs.100,000,000.00 transferred to NCPB was acknowledged as received in December 2012, no documentary evidence was</p>				

**STRATEGIC GRAIN RESERVE FUND  
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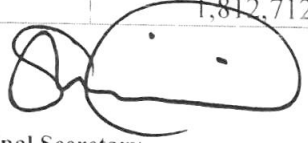
Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Timeframe:
976	<p>produced to confirm whether NCPB had procured the gunny bags for the Fund in the year 2012/2013.</p> <p>(iii). The balance sheet also reflects under current assets a balance of Kshs.100,000,000.00 described as gunny bags. This figure has not been supported with documentary evidence. Under the circumstance, the existence and valuation of these current assets could not be ascertained.</p> <p><b>Accounts Receivable</b> The balance sheets reflects a Famine Relief Account receivable balance of Kshs.6,865,220,613.00 which includes amounts totaling , Kshs.6,844,720,613.00 or 424about 99.7% which relates 2011/2012 and earlier years. No explanation has been provided for failure to recover this long outstanding debt. Any additional provision that would have been necessary in relation to this uncertainty has not been incorporated in the financial statements.</p>	Resolved under the Ministry of Devolution and Planning	Resolved under the Ministry of Devolution and Planning	Resolved under the Ministry of Devolution and Planning	Resolved under the Ministry of Devolution and Planning
977	<p><b>Cash at Bank</b> The balance sheet reflects Cash at Bank of Kshs.322,303,663.55 which according to Note (7) to the financial statements</p>	Resolved under the Ministry of Devolution and Planning	Resolved under the Ministry of Devolution and Planning	Resolved under the Ministry of Devolution and Planning	Resolved under the Ministry of Devolution and Planning

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Reference on the Internal Audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Timeframe:
8	<p>includes an amount of Kshs.142,994,020.00 held in the Revenue Collection account maintained at the Kenya Commercial Bank (KCB). However, the transactions during 2012/2013 in respect of this revenue collection account were not recorded in the main Strategic Grain Reserve Fund cashbook. No separate cashbook was likewise maintained for this revenue collection account. In addition no bank reconciliation statements or certificate of bank balance as at 30 June 2013 for the account were produced for audit. Consequently, the existence, completeness and accuracy of the Kshs.142,944,020.00 balance relating to the revenue collection account could not be ascertained.</p>	<p>Resolved under the Ministry of Devolution and Planning</p>	<p>Resolved under the Ministry of Devolution and Planning</p>	<p>Resolved under the Ministry of Devolution and Planning</p>	<p>Resolved under the Ministry of Devolution and Planning</p>

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Timeframe:
	i. Sales Ksh. 218,592,195.00 ii. Stocks ksh. 203,350.00 iii. Accounts receivable ksh. 1,812,712,417.46				



Principal Secretary

Date: 30/09/2014



Head of Accounting Unit

Date: 30/09/2014