

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

THE NATIONAL ASSEMBLY  
PAPERS LAID

DATE: 08 MAY 2019

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OF

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*Majimbo Wap  
Hon. Benjamin W.*

THE AUDITOR-GENERAL

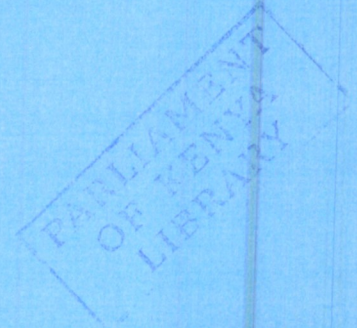
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*M- mocha*

ON

FINANCIAL STATEMENTS OF  
COMMODITIES FUND

FOR THE YEAR ENDED  
30 JUNE 2018





OFFICE OF THE AUDITOR GENERAL  
P. O. Box 30084 - 00100, NAIROBI  
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# Commodities Fund

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**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

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

## Table of Contents

I. KEY FUND INFORMATION AND MANAGEMENT .....	1
II. BOARD MEMBERS .....	4
III. BOARD COMMITTEES .....	6
IV. MANAGEMENT TEAM .....	7
V. CHAIRMAN'S STATEMENT .....	10
V. REPORT OF THE MANAGING TRUSTEE (CEO) .....	11
VI. CORPORATE GOVERNANCE STATEMENT .....	14
VII. MANAGEMENT DISCUSSIONS AND ANALYSIS .....	16
VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT .....	22
IX. REPORT OF THE DIRECTORS .....	23
X. STATEMENT OF TRUSTEES' RESPONSIBILITIES .....	24
XI. REPORT OF THE INDEPENDENT AUDITORS ON THE COMMODITIES FUND .....	25
XII. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30TH JUNE 2018 ...	26
XIII. STATEMENT OF FINANCIAL POSITION AS AT 30 <sup>TH</sup> JUNE 2018 .....	27
XIV. STATEMENT OF CASH FLOWS AS AT 30TH JUNE 2018 .....	29
XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS .....	30
XVI. NOTES TO THE FINANCIAL STATEMENTS .....	36
XVII. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS .....	58
XVIII. Appendix 1: PROJECTS IMPLEMENTED BY THE FUND .....	65
XIX. Appendix 11: INTER-ENTITY TRANSFERS .....	65

## **I. KEY FUND INFORMATION AND MANAGEMENT**

### **(a) Background information**

The Commodities Fund (ComFund) is a State Corporation under the Ministry of Agriculture, Livestock, Fisheries and Irrigation. It was established under section 9(2) of the Crops Act of 2013 and operationalized on 1<sup>st</sup> August 2014. It is the successor of the Coffee Development Fund and the Sugar Development Fund. The Fund is represented by the Cabinet Secretary for Agriculture and Irrigation who is responsible for the General Policy and strategic direction of the Fund.

Its mandate is to provide sustainable, affordable and accessible credit and advances to farmers for value chain development of crops regulated by Agriculture and Food Authority (AFA); under which former crop regulatory boards and authorities were collapsed into directorates.

During the period under review, the affairs of the Fund were run by the Board of Trustees. The Crops Act 2013, Section 9(3) states that the Fund shall be run by Board of Trustees, appointed by the Cabinet Secretary. The Managing Trustee is the Secretary to the Board and Chief Executive Officer of the Fund. The Board is assisted by a management team headed by the Managing Trustee with departmental managers comprising of, Credit Manager, Finance Manager, Legal Manager and ICT Manager. Other heads include, Internal Auditor, Human Resource Officer, the Supply Chain Officer and Corporate Communications Officer.

### **(b) Principal Activities**

The purpose of the Fund is to provide sustainable, affordable credit and advances to farmers, co-operative societies, millers and out grower institutions for farm development, farm inputs, farming operations, farm machinery, factory rehabilitation and price stabilization.

The Vision of the Fund is to be the Financial Institution of Choice for the Agriculture Sector in Kenya. The mission of the Fund is to provide easily accessible and affordable credit and financial solutions to the agriculture sector in Kenya for farm improvement, farm inputs, farm operations, price stabilization and any other lawfully approved purpose.

Core objectives of the Fund are:

- To develop loan products for scheduled agricultural commodities as per Commodities Fund's Credit Policy, Crops Act, 2013, AFA Act, 2013 and various crops regulations.
- To advance credit facilities to the Agriculture sector in Kenya
- To enhance agricultural sector infrastructure development through financing
- To promote and encourage the use of environmentally friendly agricultural technologies
- To collect, collate and analyse credit database in the targeted scheduled commodities sector
- To promote the efficiency and development of agricultural sector through the establishment of appropriate institutional linkages and partnerships; and
- To establish and maintain a price stabilization system

### **(c) Key Management**

The Fund's day-to-day management is under the following key organs:

- i) The Board of Trustees comprising of three committees namely; Finance, staff and General Purpose Committee, Credit Committee and Audit and Governance Committee.
- ii) The Managing Trustee who is the Chief Executive and Secretary to the Board.
- iii) The Management team comprising of the Managing Trustee and eight heads of departments and section

#### **(d) Fiduciary Management**

The Key management personnel who held office during the financial year ended 30<sup>th</sup> June 2018 and who had direct fiduciary responsibility were:

- |  |                      |
|--|----------------------|
| i) Managing Trustee                    | - Nancy C. Cheruiyot |
| ii) Finance Manager                    | - Silas Nyaga        |
| iii) Credit Manager                    | - Roseline Wambura   |
| iv) Legal Manager                      | - Nesline Okiko      |
| v) Procurement Officer                 | - Tomno Kibichii     |
| vi) ICT Manager                        | - Solomon Kirwa      |
| vii) Human Resources Officer           | - Rose Ndiritu       |
| viii) Corporate Communications Officer | - James Singa        |
| ix) Internal Audit Manager             | - Edwin Okiah.       |

#### **(e) Fiduciary Oversight Arrangements**

The Fund has developed key fiduciary oversight arrangements in all areas of operation which include:

##### **i) Finance and Audit Activities**

The Fund has developed key policies in all its operational area and complies with the requirements of the Public Financial Management Act 2012 in the management of public funds. Annual operational and financial budget is prepared and approved by the relevant authority before use by the management to guide resource application. Bank accounts are operated by the officers of the Fund who are appointed and authorized by the Board. Internal controls in place do not allow an officer of the Fund to initiate and complete transaction his/her own. The internal audit department of the Fund reviews operational and financial activities of Fund independently and reports directly to the Audit Committee of the Board. The Fund is on annual basis audited by the Auditor General who reports his findings to the National Assembly.

##### **ii) Credit Administration**

The Fund has developed an elaborate credit policy that guides credit administration. Credit approvals is vested on committees of which the management credit committee approve loans up to a certain limit while the Board Credit Committee approves the higher loans.

##### **iii) Overall Supervision by the Board**

The Board of trustees has composed three committees which meets at least once quarterly to deliberate and guide on matters presented before them by the management. The Board committees then reports to the full Board which also meets at least once quarterly. The Board is appraised on the performance of the Fund during the quarterly meetings.

#### **(f) Fund Headquarters**

2<sup>nd</sup> floor, Railway Headquarters Building - Block D  
Workshop Road  
Off Haile Selassie Avenue  
P.O. Box 52714 - 00200  
City Square

**NAIROBI, Kenya**

**(g) Fund Contacts**

Phone : +254-20-210806/7/9  
Mobile : +254-770-587333/355  
          +254-737-204278/9  
Fax : +254-20-2210816  
E-mail : info@codf.co.ke  
Website : www.codf.co.ke

**(h) Fund Bankers**

Co-operative Bank of Kenya Ltd  
Haile Selassie Avenue  
P.O. Box 48231-00100  
**NAIROBI, Kenya**  
Tel : +254-20-3276000  
Fax : +254-20-219821  
Website: www.co-opbank.co.ke



**(i) Independent Auditors**




Auditor General  
Office of the Auditor-General  
Anniversary Towers, University Way  
P. O. Box 30084  
GPO 00100  
**NAIROBI, Kenya**

**(j) Principal Legal Adviser**

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

## II. BOARD MEMBERS

<p><b>Insert each Director's passport-size photo and name, and key profession/academic qualifications</b></p>	<p><b>Provide a concise description of each Director's date of birth, key qualifications and work experience</b></p>
<p>1. Prof. Eric Okoth Ogur, PhD</p> 	<p>Professor Ogur was born on 17<sup>th</sup> December 1971. He received his PhD. in Engineering from University of Warwick in 2007.</p> <p>Prior to joining the Technical University of Kenya in 2011, he worked as a Research Fellow at the Warwick Manufacturing Group in the University of Warwick and as an Engineer with Proctor and Gamble GmbH in Frankfurt, Germany. Professor Ogur is also the Director, Centre for Engineering Innovation and Production.</p> <p>His other duties and responsibilities include: Reviewer, Kenya Journal of Technical and Vocational Education and Training, Member, Editorial Board, Africa Journal of TVET and Member, Board of Governors, Bushiangala Technical Training Institute where he is also the Chair of the Education and Training Committee.</p>
<p>2. Purity Karariet Sein</p> 	<p>Purity K. Sein was born on 26<sup>th</sup> June 1984 and is a holder of Bachelor of Science (Chemistry, Botany &amp; Zoology) at the University of Agra-India (Specialized Biotechnology – Forensic Science).</p> <p>She is a trained investigator coupled with management and social auditing skills (worked as an Anti- corruption Officer). She also worked as Law enforcement with Nema under the Ministry of Environment. She is a former Director of National Housing Corporation and Chairperson, Audit Committee.</p> <p>She is a National Security Committee Member on CPS, Ministry of Interior and National Government Coordination.</p>

<p>3. Henry Huka Duba</p> 	<p>Mr. Henry H. Duba was born 11<sup>th</sup> November, 1961. He is a holder of Masters' in Public Health.</p> <p>His other qualification include: Higher Diploma in Community, Post-Graduate Certificate in Health Services Management, Diploma in Environmental Health Sciences, Certificate, Health Emergencies in Large Populations, Diploma in Public Health, Certificate, grants management. He is a Public Health and Nutrition specialist.</p> <p>He has over 18 years' experience in humanitarian services as Country Director, Chief of Party and Director of Food Security and Nutrition Programs. He is Managing grants of US\$ 50M (Ksh 5b).</p>
<p>4. Robert Mugambi Murithi</p> 	<p>Robert M. Murithi was born on 20<sup>th</sup> August 1968 and holds a Master of Arts degree in Economics, BA degree in Economics and Finance and is part qualified Certified Public Accountant. He is currently pursuing a Ph.D. degree in Economics at the University of Nairobi and has completed course work and is now finalising on the dissertation.</p> <p>He has got over twenty years' experience in development and investment finance within the East African region, having worked with East African Development Bank for the last eighteen years. He has vast experience and training in credit analysis and project monitoring and evaluation. He is currently an Advisory Board Member for Business Partners International Limited and a Limited Partner representative in Catalyst Fund LLC. He has previously served as a board member in several other companies within the East Africa region.</p>
<p>5. Eliud Mathu Kamau</p> 	<p>Mr. Eliud M. Kamau was born on 27<sup>th</sup> August, 1968. He is a holder of Master of Science in Agricultural and Applied Economics (Egerton University).</p> <p>He has twenty-four (24) years' experience in Ministry of Agriculture, Livestock, Fisheries and Irrigation. He is an Assistant Director of Agriculture (Head/State Corporations' Unit, State Department of Agriculture)</p>





<p>6. Moses Macharia Gakuru</p> 	<p>Moses M. Gakuru was born in 1959 and holds Masters in Business (Strategic Management), Bachelor's Degree in Business Administration, Diploma in Project Management and is CPA final.</p> <p>He is currently working as Assistant Accountant General at the National Treasury and has over 35 years work experience in Public Sector Financial Management Accounting and Reporting.</p> <p>He is a member of Institute of Certified Public Accountant of Kenya (ICPAK), Kenya Institute of Management (KIM) and Institute of Certified Investments &amp; Financial Analysts (ICIFA).</p>
<p>7. Nancy Chelangat Cheruiyot</p> 	<ul style="list-style-type: none"> <li>• <b>Area of Responsibility:</b> Managing Trustee (Accounting Officer).</li> <li>• <b>Academic Qualification:</b> MBA-Financial Management, Bachelor of Arts - Economics &amp; Sociology.</li> <li>• <b>Professional Qualification:</b> ACCA. Doctor of Philosophy in Business Administration (on-going).</li> </ul>





### III. BOARD COMMITTEES

Name of the Committee	Members
Finance, Staff & General Purpose Committee	<ol style="list-style-type: none"> <li>1. Mr. Henry Huka Duba, Chairperson</li> <li>2. Ms. Purity Sein Karariet, Member</li> <li>3. Mr. Eliud Mathu Kamau, Rep. PS, Ministry of Agriculture, Livestock, Fisheries and Irrigation</li> <li>4. Moses Macharia Gakuru, CS Rep, The National Treasury.</li> </ol>
Credit Committee	<ol style="list-style-type: none"> <li>1. Mr. Robert. Mugambi Murithi, Chairperson</li> <li>2. Prof. Eric Okoth Ogur, Member</li> <li>3. Mr. Eliud Mathu Kamau, Rep. PS, Ministry of Agriculture, Livestock, Fisheries and Irrigation</li> </ol>
Audit and Governance Committee	<ol style="list-style-type: none"> <li>1. Ms. Purity Sein Karariet, Chairperson</li> <li>2. Prof. Eric Okoth Ogur, Member</li> <li>3. Moses Macharia Gakuru, CS Rep, The National Treasury.</li> </ol>

#### IV. MANAGEMENT TEAM

The Fund's day-to-day management is under the following key organs:

<p><b>1. Ms Nancy Chelangat Cheruiyot</b></p> 	<ul style="list-style-type: none"> <li>• <b>Area of Responsibility:</b> Interim Managing Trustee (Accounting Officer).</li> <li>• <b>Academic Qualification:</b> MBA-Financial Management, Bachelor of Arts - Economics &amp; Sociology.</li> <li>• <b>Professional Qualification:</b> ACCA. Doctor of philosophy in Business Administration (on-going).</li> </ul>
<p><b>2. Ms Roseline Wambura</b></p> 	<ul style="list-style-type: none"> <li>• <b>Area of Responsibility:</b> Credit.</li> <li>• <b>Academic Qualification:</b> Bachelor of Commerce, MBA Project Management</li> <li>• <b>Professional Qualification:</b> ACCA- ongoing.</li> </ul>
<p><b>3. Mr. Solomon Kirwa</b></p> 	<ul style="list-style-type: none"> <li>• <b>Area of Responsibility:</b> ICT.</li> <li>• <b>Academic Qualification:</b> M.Sc. in I.T(Systems Security &amp; Audit), MBA Finance Option, Bachelor of Science in IT.</li> <li>• <b>Professional Qualification:</b> PRINCE2, ITIL, CCNA, CPA (K) Oracle OCP, MCSE &amp; JAVA Programmer.</li> </ul>
<p><b>4. Mr. Silas Nyaga</b></p> 	<ul style="list-style-type: none"> <li>• <b>Area of Responsibility:</b> Finance and Accounting.</li> <li>• <b>Academic Qualification:</b> MBA- Finance.</li> <li>• Bachelor of Commerce in Accounting.</li> <li>• <b>Professional Qualification:</b> CPA (K), CPS.</li> </ul>

<p><b>5. Ms. Rose Nderitu</b></p> 	<ul style="list-style-type: none"> <li>• <b>Area of Responsibility:</b> Human Resources &amp; Administration.</li> <li>• <b>Academic Qualification:</b> Bachelor of Education (Arts), Higher Diploma HR (KNEC)/IHRM Certified Public Secretary-CPS(K), MBA(Human Resources)- KU Project ongoing, Certificate in Insurance Proficiency.</li> <li>• <b>Professional Membership:</b> Member of Institute Human Resources Management.</li> </ul>
<p><b>6. Mr. Edwin Okiah</b></p> 	<ul style="list-style-type: none"> <li>• <b>Area of Responsibility:</b> Internal Audit.</li> <li>• <b>Academic:</b> Bachelor of Commerce - Finance. MSC-Project Management.</li> <li>• <b>Professional Qualification:</b> CPA (K), CFIP.</li> </ul>
<p><b>7. Mr. Nesline Gechuki Okiko</b></p> 	<ul style="list-style-type: none"> <li>• <b>Area of Responsibility:</b> Legal Services.</li> <li>• <b>Academic Qualification:</b> Bachelor of Law.</li> <li>• <b>Professional Qualification:</b> Diploma in Law.</li> </ul>
<p><b>8. Mr. Tomno Kibichii</b></p> 	<ul style="list-style-type: none"> <li>• <b>Area of Responsibility:</b> Supply Chain.</li> <li>• <b>Academic Qualification:</b> Bachelor of Arts, MSC Procurement &amp; Logistics (on-going).</li> <li>• <b>Professional Qualification:</b> MCSIPS.</li> </ul>

**9. Mr James Singa**



- **Area of responsibility:** Head - Corporate Communications, Commodities Fund.
- **Qualifications:** First Class Bachelor's degree in Communications/ Media Technology (Maseno University); MA in Communication Studies (UoN); Certificate: Web 2.0 and Social Media (EU-ACP); Certificate: Corporate Governance (Centre for Corporate Governance); Certified ISO systems internal Lead Auditor (Bureau Veritas).
- **Professional bodies:** Full Member; Public Relations Society of Kenya.

## V. CHAIRMAN'S STATEMENT

### 1.0 Introduction

It is with great pleasure that I present Commodities Fund's Annual Report and Financial Statement for the financial year ending 30<sup>th</sup> June 2018. In the past financial year under review, the Fund has focused on prudent lending, strengthening the operations and partnership with other stakeholders.

### 2.0 Business Environment

Kenya's Gross Domestic Product (GDP) is estimated to have expanded by 4.9 per cent in 2017 compared to a revised growth of 5.9 per cent in 2016. Agriculture, Forestry and Fisheries sector posted a decelerated growth of 1.6 per cent in 2017 compared to revised growth of 4.7 per cent in 2016. The slowdown in performance of the economy was partly attributed to uncertainty associated with prolonged electioneering period coupled with effects of adverse weather conditions. Performance across various Sectors of the economy varied widely, with accommodation and food service registering accelerated growths in 2017 compared to 2016. Tea and coffee production decreased by 7.0 per cent and 11.5 per cent to 439.8 thousand tonnes and 40.8 thousand tonnes, respectively in 2017. Similarly, reduction in cane production resulted in sugarcane deliveries to factories reducing drastically from 7.2 million tonnes in 2016 to 4.8 million tonnes in 2017 (KNBS Economic Survey, 2018).

Nevertheless, the price of one kilogramme of tea rose by 21.6 per cent in 2017 to Kshs. 315 up from Kshs. 259 the previous year. Similarly, the price for one kilogramme of coffee rose by 14.4 per cent to Kshs. 540 in 2017 (KNBS Economic Survey, 2018)

### 3.0 Corporate Performance Overview

The Fund's net loan book as at 30 June, 2018 stood at Kshs. 7.8 billion down from Kshs. 8.0 billion in June 2017, a 2.5% change is as a result of a slight decrease in Loan disbursements. During the year, the Fund disbursed a total of Kshs. 637.933 million, to support the two sectors it is financing: Sugar (Kshs. 0.5 Billion towards Land Development, Seedbed preparation, Crop Establishment and Crop Rehabilitation for Sugar Projects) and Coffee (Kshs. 137.933 million).

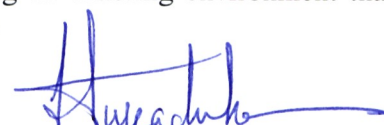
### 4.0 The Board Composition

The Board membership is as set out on page 4-6.

### 5.0 Conclusion

I would like to extend my appreciation to the management, staff and our partners for their dedicated service and execution of the Funds strategies towards achieving the Fund's Mandate, Vision and Mission. I recognize the Ministry of Agriculture, Livestock, Fisheries and Irrigation our parent ministry and by extension, the Government for their advices, support and for providing an enabling environment that has made it possible for the Commodities Fund to flourish.

Signed .....



Chairman, Finance, Staff & General Purposes Committee

## **V. REPORT OF THE MANAGING TRUSTEE (CEO)**

### **1.0 Introduction**

I am pleased to announce the financial results of the Commodities Fund for the year ending 30th June 2018. The period marks Fund's third year after operationalization of Crops Act 2013 that merged Coffee Development Fund with Sugar Development Fund to form Commodities Fund. The Fund is laying ground work to increase its business portfolio with the current sectors it is already operating in (Sugar and Coffee Sectors), as well as initiate efforts to expand to financing other crop sectors, as envisaged under crops act, 2013.

### **2.0 Financial Performance**

The Fund recorded a surplus of Kshs.10.5 Million for the year ending 30 June 2018 compared to deficit of Kshs.1.8 Billion recorded June in 2017.

During the year under review, the Fund performance was weighed down by a significant increase in provisions as a result of poor performance in Sugar and coffee sectors. As a result, the Fund provisions has decreased to Kshs.405 Million compared to Kshs.2.3 billion in 2017. The decrease is as a result of higher provisions that were provided for in 2016/2017 due to adoption of new provisioning policy.

Due to poor performance in Sugar and Coffee sectors and the syndrome of write off by our clients, provisions on Sugar and coffee portfolio has increased to Kshs.10.1 billion compared to Kshs.9.8 billion in 2017 and Kshs. 459 million compared to Kshs. 438 million in 2017 respectively.

During the period revenue reserves decreased from negative Kshs. 4.06 billion to a negative of Ksh.4.05 billion. Income from credit activities declined to Ksh.441 million from Kshs.539 million representing 18.1% decline. Revenues from non-credit activities mainly investment declined by 45% from Kshs.129 million to Kshs.71.20 million. The declined is attributed to capping of interest rates by commercial banks from 2016 and the funds held for disbursement which were being invested as it awaits approval were approved and disbursed.

Operating cost of the Fund excluding Provisions for non-performing debts grew by 9% to Kshs.211 million from Kshs.192 million in 2017. The Fund's loan book as at 30 June, 2018 stood at Kshs. 8.7 billion up from Kshs.8.0 billion in June 2017. This increase of 8.0% is mainly attributed to loans totalling to Kshs.895 million adopted from Agriculture and Food Authority.

### **3.0 Credit Portfolio**

The Fund's loan portfolio comprised of coffee and sugar loan products that supported production, processing and value addition of the two crops. The sugar industry has been facing acute cane shortage which was further aggravated by the drought that was being experience in the country. Coffee farmers on the other and were also affected by the drought which lead to reduced production.

To alleviate the problems, the sub sectors were facing, the Fund disbursed a total of Kshs. 637.933 million i.e. Kshs 0.5 billion towards Land Development, Seedbed preparation, Crop Establishment and Crop Rehabilitation for Sugar Projects and Kshs. 137.933 million for Coffee projects: Advances, Farm inputs, Crop Establishment, Processing and Purchase of Machinery

geared towards increasing coffee productivity. The extension of credit facilities was realized as a result of strong relationship between the Fund and its partners.

#### **4.0 Human Capital**

The Fund recognizes that its human capital is core to achieving its mandate. As such and in addition to rewarding careers, the Fund offers opportunities for leadership building and skills enrichment through various development programs, on-the-job training and structured personal career growth.

The Fund upholds good citizenship practices by adhering to disability and gender mainstreaming as well as continually striving to be the employer of choice. The Fund will continue to use the balanced score card as tool to monitor employees output.

#### **5.0 Risk Management and Internal Controls**

The Board of Trustees has overall responsibility for the establishment and oversight of the Fund's risk management frameworks. The Fund's Risk Management Policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor adherence limits. Risk Management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

Subsequently, the Fund identifies and manages risk through in-house risk review enhanced by internal and external audits. The Fund has in place a system of internal controls with defined procedures and financial and operational controls to ensure that resources are safeguarded; transactions authorized, validated and reported in line with International Financial Reporting Standards.

#### **6.0 The ISO 9001:2015 certification:**

The Fund has a functioning and continuously monitored Quality Management System. The QMS is monitored through management review meetings, internal and external audits to ensure it is fully implemented and produces value for all of Commodities Fund's internal and external stakeholders. The Quality Management System was certified under ISO 9001: 2015 in the last quarter of the financial year under review.

#### ***Quality Management System Policy***

- Commodities Fund (Fund) is committed to providing efficient and reliable credit facilities along the value chain to the satisfaction of the agriculture sector. The Fund shall continually improve its Quality Management System through enhanced customer service delivery to achieve a vibrant, sustainable and profitable scheduled crops in the agricultural sector.
- Commodities Fund is committed to developing and maintaining a Quality Management System which conforms to ISO 9001:2015 International Standards.
- In pursuit of this commitment, Commodities Fund shall:
  - a) Establish and maintain a quality management system and continually improve its effectiveness.
  - b) Effectively communicate the quality policy at all levels within the organization and shall be available to relevant interested parties.
  - c) Provide resources for implementation of the quality management system.
  - d) Comply with applicable statutory and regulatory requirements.

- Commodities Fund shall implement, monitor and regularly review this policy and related quality objectives for suitability in line with the changing needs and requirements of our customers and other relevant interested parties.

## **6.0 Corporate Social Responsibility**

The Fund recognizes that the institution's social, environmental and ethical conduct has an impact on its reputation.

The Fund, as a Responsible Corporate citizen, also understands that it has a responsibility to ensure that its mandate is carried in a manner that not only brings about satisfaction to its stakeholders, but minding the proper management of the environment it operates in, and especially, considering the social well-being community and public it serves, while promoting national values, national cohesion and human dignity. These are the basic principles that informs the Fund's CSR function and activities.

The Fund is therefore committed to developing and implementing Corporate Social Responsibility programmes based on the above mentioned principles.

## **7.0 Outlook**

The Fund remains committed to delivering its mandate of developing the crops sector in Kenya through provision of sustainable, affordable and accessible credit and advances. Our expanded mandate requires us to finance all crops scheduled under AFA Act, 2013 and regulated by Agriculture and Food Authority. In order to take financing services closer to our producers, the Fund has devolved its services to the few selected counties in the period under review, this includes Nyeri, Embu, Meru, Nakuru, Eldoret, Kericho, Kisumu, and Nairobi.

At the same time, the Fund will endeavour to cultivate collaborative partnerships with development partners as a means to build up sustainable lending capital, as well as with all our stakeholders with a view of harnessing opportunities and growing robust agriculture enterprises within the sectors we are mandated to serve.

Our achievements in 2017/18 would not have been possible without the dedication and expertise of our staff, to whom I extend my sincere thanks, to Ministry of Agriculture, Livestock, Fisheries and Irrigation and the Board of Trustees who have provided wise counsel to my colleagues and I during the year, as well as to all our stakeholders, who have accorded us the privilege to serve them.

Signed   
.....  
**Managing Trustee**

## **VI. CORPORATE GOVERNANCE STATEMENT**

At the Commodities Fund, we are committed to the highest level of corporate governance, which is critical to our business philosophy and to maintaining stakeholders trust in the Fund. Our corporate governance policy is a built-in, self-regulating mechanism, which provides the framework to monitor and ensure statutory compliance, foster a culture that values and rewards the highest ethical standards and personal integrity. The Fund strives to ensure that at all its Trustees and staff act with integrity, honesty and professionalism. The Fund's Board of Trustees and Management have adopted sound corporate governance principles, setting the right "tone at the top" thereby reinforcing an ethical business culture governing all its dealings. This statement sets out the key corporate governance principles observed by the Fund and illustrates the practices and systems established by Government.

### **1.0 Board of Trustees**

The Fund's operations are overseen through the direction of the Board of Trustees, which is responsible for:

- i) Providing policy guidelines and strategic decision-making;
- ii) Establishing and maintaining the Fund's overall systems of planning, accounting and internal control as well as ensuring its integrity;
- iii) Setting the strategic direction of the Fund;
- iv) Setting policy guidelines for management and ensuring competent management of the business including the selection, supervision and remuneration of senior management;
- v) Ensuring that the business of the Fund is conducted in compliance with relevant laws, regulations and the legality of transactions;
- vi) Reporting the performance of the Fund to stakeholders and ensuring the Fund meets all its other responsibilities to stakeholders;
- vii) Ensuring that the rights of stakeholders that are protected by law are respected;
- viii) Permitting and facilitating performance-enhancing mechanisms for stakeholder participation;
- ix) Ensuring that where stakeholders participate in performance-enhancing mechanisms, they have access to all relevant information;
- x) Putting in place independent and viable mechanisms to evaluate performance of the Fund and management;
- xi) Account for stewardship [efficient and effective use of entrusted resources] for the maximum benefit of the Fund;
- xii) Ensuring that the Fund operates within ethical guidelines that enhance integrity, social accountability and the reputation and credibility of the Fund;
- xiii) Maintaining adequate systems of financial management and internal control over the Fund;
- xiv) Facilitating an extension of Auditors duties in regard to:
  - Reporting on whether the Fund has financial and other risk management controls,
  - Evaluating and reporting on aspects of propriety and efficiency;
- xv) Extending the liability of external auditors to third parties.

The day-to-day running of the Funds affairs is delegated to the Management team while the Board retains the overall responsibility as mandated by Law.

## **2.0 Board Structure and Processes**

The Board of Trustees consists of members who contribute expertise based on their professional qualifications and business experience. The Board was appointed and gazetted the same date with the government represented offices being appointed later hence providing an avenue for succession. During the period under review, the Board had a cumulative of 52 meetings inclusive of various committee meetings and special board meetings. This included interview sessions for managerial position as per the Ministry's directive and also for the position of Managing Trustee. The Fund meets all the costs incurred by the Trustees during the various committees and Full Board meetings.

The Board has been inducted on the Fund's various activities with trainings and seminars on corporate, legal and governance issues planned and scheduled to enhance their knowledge and skills in corporate governance issues in the course of the financial year.

The Board of Trustees and its constituent committees have Board Charters which govern their operations in conformity with best corporate governance practices as developed and guided by the Government of Kenya. The Board shall be conducting an annual evaluation of its performance and that of its key committees towards the end of the 2018/2019 financial year. This shall be carried out with the evaluation criteria linked to Board and Committee responsibilities and goals as set forth in the charter and governance policies.

## **3.0 Conduct of Business Operations, Performance**

The Fund's business operations are carried out within an established framework of processes, procedures, systems and in line with the Fund's Strategic Plan. The Management structure has clearly set out roles, responsibilities and reporting lines, all geared towards providing strong, stable leadership and achievement of the Fund's business objectives. As a key Management initiative, the Fund is using the balanced scorecard with all staff performance evaluated continuously on a semi-annual basis with financial and non-financial metrics used to evaluate executive performance.

The Fund practices equal opportunity recruitment of qualified persons to ensure compliance in its practices as guided by the Constitution of Kenya in recognizing regional and ethnic balance, gender balance and affirmative action to persons with disabilities where possible. As part of its staff development programme, the Fund endeavours to empower all staff regardless of their calibre.

The Fund recognizes its human capital to be strategic to the achievement of its business objectives and has identified the HIV/AIDS pandemic as being a possible challenge. In response, it has implemented as part of its policy, a comprehensive medical scheme for all its staff and dependents to ensure quality healthcare for staff, incorporating medical assistance for all who may be infected or affected in any other way by the pandemic. The Fund also on a regular basis sensitizes its staff on matters pertaining to gender, disability, drug abuse, integrity and corruption and provides progress reports to the relevant bodies.

## VII. MANAGEMENT DISCUSSIONS AND ANALYSIS

### 1.0 Highlights of Operational and Financial Performance:

The Fund is mandated to provide sustainable, affordable and accessible credit and advances to farmers for value chain development of crops regulated by Agriculture and Food Authority (AFA); under which former crop regulatory boards and authorities were collapsed into directorates.

The Fund is currently financing coffee and sugar crops that had established funds as at time of the operationalization of Crops Act 2013, on 1<sup>st</sup> August 2014. As of 30<sup>th</sup> June 2018, the coffee fund stands at Kshs. 1,675,206,000 while that of the Sugar Fund amounts to Kshs. 12,658,786,000.

#### Summarized Statement of Financial Position

Details	2016	2017	2018
	Ksh'000'	Ksh'000'	Ksh'000'
Gross Loans	15,446,846	15,848,973	16,631,768
Provisions on Non- Performing Loans	6,283,903	7,796,306	7,947,474
<b>Net Loans</b>	<b>9,162,943</b>	<b>8,052,667</b>	<b>8,684,294</b>
Gross Interest Accrued on Loans	3,015,074	3,445,336	3,878,244
Provision on Interest	1,769,163	2,534,150	2,572,677
<b>Net Interest on Loans</b>	<b>1,245,911</b>	<b>911,186</b>	<b>1,305,567</b>
Other Assets	1,660,359	1,315,641	1,139,552
Property plant and Equipment	50,375	62,929	73,973
<b>Total Assets</b>	<b>12,119,588</b>	<b>10,342,423</b>	<b>11,203,386</b>
Total Liabilities	109,519	66,007	20,782
<b>Net assets</b>	<b>12,010,069</b>	<b>10,276,416</b>	<b>11,182,604</b>
Capital Reserves	14,340,701	14,337,413	15,233,139
Revenue Reserves	(2,330,631)	(4,060,997)	(4,050,535)
<b>Total Net Reserves</b>	<b>12,010,070</b>	<b>10,276,416</b>	<b>11,182,604</b>
<b>Summarize Performance Statement</b>			
Income from Credit Activities	555,723	539,520	555,929
Provision charges on loans & Interest	503,781	2,277,390	405,624
Net income/(Deficit) from Credit Activities	51,942	(1,737,870)	150,306
Income from Non-Credit Activities	179,110	129,386	71,181
<b>Operating Surplus (Deficit)</b>	<b>231,052</b>	<b>(1,608,484)</b>	<b>221,487</b>
Operating Expenses	189,454	192,557	211,025
<b>Net Surplus (Deficit)</b>	<b>41,598</b>	<b>(1,801,041)</b>	<b>10,462</b>

The gross loan portfolio as at June 30<sup>th</sup> June, 2018 stood at Kshs. 16,631,768,000 comprising of coffee Kshs. 919,352,000 (6%) and sugar loans of Kshs. 15,712,416,000 (94.5%). The portfolio is made up of loan products that support production, processing and value addition of the two crops. Comparative gross loan portfolio on June 2017 was Kshs. 15,848,973,000

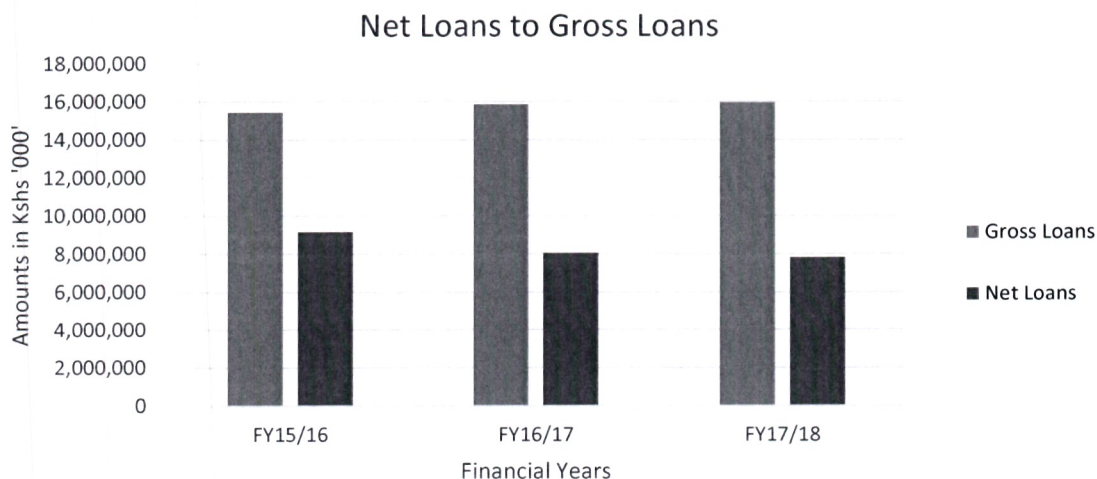
## Commodities Fund

Annual Report and Financial Statements for the Year ended 30<sup>th</sup> June 2018

comprising of Kshs. 1,069,964,000 and Kshs. 14,779,009,000 for coffee and Sugar sectors respectively. This represents growth of Kshs. 117,889,000 (1%). Overall growth recorded over three-year period was Kshs. 550,016,000 (3.5%) to Kshs.16,631,768,000 from Kshs.15,446,846,000 recorded in June 2016.

During the year, the Fund disbursed loans amounting to Kshs. 637,933,197 to borrowers within two sectors. The disbursements were broken into Kshs. 137,933,197 and Kshs. 500,000,000 for coffee and sugar sectors respectively. This was 28% decline from Kshs. 891,752,974 disbursed in 2017. The decline was as a result of low loan uptake due to poor performance in both coffee and sugar sector.

The sugar sector which holds 94% of Fund's loan portfolio continues to record poor performance due to myriad challenges. All government owned sugar millers except South Nyanza Sugar Company Ltd had suspended operations due to sugar cane shortages. The Industry as a whole is also faced with funding challenges following the abolition of sugar levy that was the sole source of funding for the Industry. The poor performance of the industry has adversely affected the performance of the sugar loan portfolio managed by Commodities Fund. Non-performing loans have attracted an increase in provisions by Kshs 13,778,880,000. The net loans have increased to Kshs 8,684,294 from Kshs.8,052,667,000 reported in 2017. The scenario is presented here below.

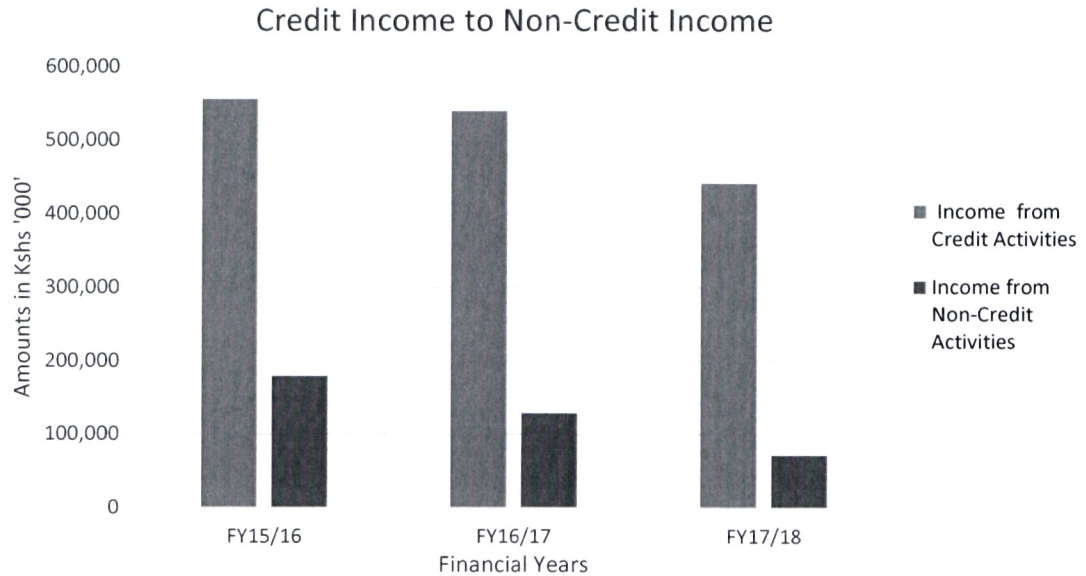


Sugar loan repayments were further affected by the pending written off of old debts aimed at cleaning the balance sheets of Government owned Sugar mills in readiness for privatization. Coffee loans were also affected by ongoing pronouncements that the government will write off debt owed by coffee farmers. Management hopes the government will soon conclude the two issues of debts write off so as to stabilize loan repayments by the concerned farmers.

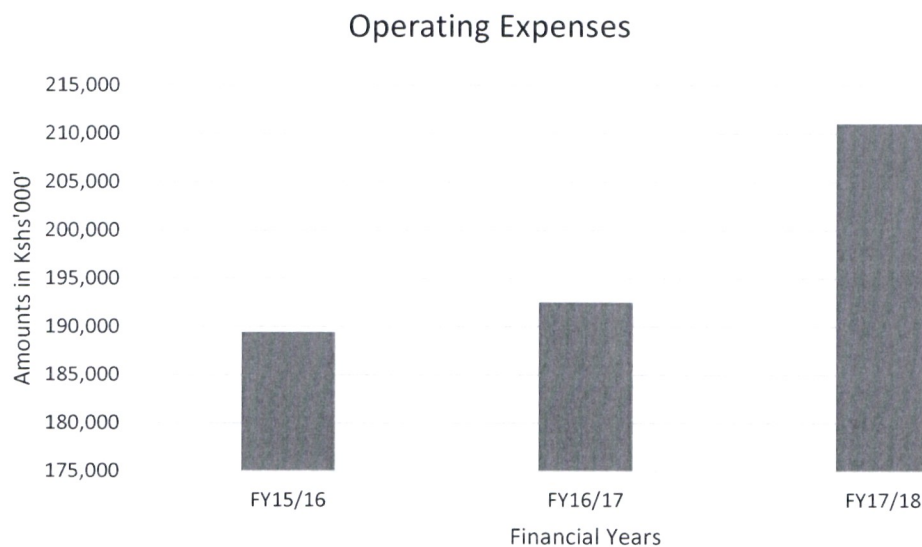
Other assets of the Fund which mainly consists of cash and cash equivalent declined by about 13% in 2018 but the overall decline within three year period was 31% from Kshs.1,660,359,000 to Kshs.1,139,552,000.

Revenues from core business of the Fund recorded 3% growth from Kshs. 539,520,000 in 2017 to Kshs. 555,929 in 2018. The decline is attributable to interest freezing on Non-performing loans on both Coffee and Sugar portfolio.

Revenues from non-credit activities declined by 44% from Kshs. 129,386,000 in 2017 to Kshs. 71,181,000 in 2018. The decline was a result of Interest capping by the government and increased loans disbursement that reduced funds available for investment.



Operating expenses of the Fund have grown by 9.5% to Kshs. 210,909,000 in 2018 from Kshs. 192,557,000 reported in 2017. The increase is attributed to the fully operationalization of the regional offices in order to bring services closer to the Fund's clients. The expected return will be realized in coming years through revenues generated as a result of new loan uptake and more loan collections.



The Fund ended the year with a net surplus of Kshs.10,462,000. This represents an increase from a deficit of Kshs. 1,801,041,326 reported in 2017. The overall cumulative deficit reached Kshs. 4,050,534,000 all attributed to provisions on non-performing loans.

## **2.0 Growth and Strategy**

The Fund has since its inception operated from Nairobi despite the fact that its customers are spread across all coffee and sugar growing regions in the country. In an effort to serve customers better and cut on operational costs, the Fund rolled out seven regional offices and enhance the current human resource capacity by ten staff mainly in the core business of the Fund. The regional offices will carry out product promotion, evaluation and recommendation of credit requests, loan monitoring, collection and follow ups. In order to discharge its mandate as stipulated in the Crops Act 2013, the Fund will in the next year expand its funding coverage to include coconut crop and Pyrethrum.

In comparison to other financial service providers, the Fund's interest rates of between 2.5% to 10% is lower than those of other players who are mainly commercial banks and Saccos. The Fund is capitalizing on this competitive advantage to reach and serve farmers who avoid the former due to high interest rate and rigidity in loan repayment patterns. Demand for crop development loans more so crops not currently financed by the Fund remains high creating future business opportunity for the Fund. The greatest challenge faced by the Fund is to secure reliable and stable Funding capital to lend to the envisaged farming fraternity.

## **3.0 Compliance with statutory requirements**

The Fund has four (4) Independent Trustee who were appointed and gazetted with effect from 7<sup>th</sup> November 2016. A further two (2) Representatives from Ministry of Agriculture, Livestock, Fisheries & Irrigation; and The National Treasury were brought on Board.

The Fund is internally run by a Managing Trustee who is the Secretary to the Board of Trustees and Chief Executive Officer of the Fund. The Managing Trustee is assisted by departmental managers comprising of, the Credit Manager, the Finance Manager, Legal Manager and the Information, Communications Technology Manager. Others include the Internal Auditor, Human Resource and Administration Officer, Procurement Officer and Corporate Communications Officer.

## **4.0 Existing and potential court cases/ defaults.**

The Fund currently has **one (1)** litigations against it which involves a spousal consent dispute on a property secured against a loan with the exposure estimated at around **Kenya shillings One million five hundred thousand (Kshs 1,500,000)**. However, the one which involved an employment matter has been concluded.

## **5.0 Key Projects investments decisions that the Fund implemented**

The Fund had budgeted to invest a total of Kshs. 37,030,000 in various assets during the year. The budgeted assets include; Office furniture Kshs. (4,480,000), Equipment (Kshs. 2,800,000), Motor vehicles (Kshs. 12,000,000), Other ICT Equipment and facilities Kshs. 17,750,000. All the above assets were financed from internally generated funds as approved through annual budget estimates.

The Fund was able to acquire Motor vehicle at cost of Kshs.11.9 million, ICT Equipment and facilities Kshs.11.9 million, Furniture Kshs 2.3 million and Office Equipment Kshs. 2.9.

## **6.0 Major Risks Facing the Fund**

The Board of Trustees has overall responsibility for the establishment and oversight of the Fund's risk management frameworks. The Fund's Risk Management Policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor adherence limits. Risk Management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

Subsequently, the Fund identifies and manages risk through in-house risk review enhanced by internal and external audits. The Fund has in place a system of internal controls with defined procedures, financial and operational controls to ensure that resources are safeguarded; transactions authorized, validated and reported in line with International Financial Reporting Standards.

Major risks identified include:

### **i) Liquidity and Funding Risk**

Liquidity risk is potential for loss to the Fund arising from its inability to meet obligations as they fall due or to fund increases in assets without incurring unacceptable costs or losses. Effective liquidity management is essential to maintain confidence of customers, suppliers and other stakeholders and to enable Fund's core business to continue even under adverse liquidity circumstances.

Management has set systems to ensure that all foreseeable funding commitments are met as they fall due and that the Fund will not face difficulties meeting its current and future financial obligations or financial liabilities as they fall due.

The Fund enters into lending agreements subject to availability of funds and investments in major assets is budgeted for and purchased when the Fund has sufficient liquid cash flows.

Commodities Fund source of funding has been GoK for coffee fund and sugar levy for sugar fund. GoK has however not given any capital grant in the last three years and has further abolished sugar levy resulting to serious funding risk. Further, the GoK is planning write off non-performing loans in both the coffee and sugar sectors which will further reduce the accumulated capital fund for the two sectors.

Management is however lobbying for funding from GoK and has come up with stringent lending conditions that ensures funds lend out are paid back to the revolving fund thus reducing the existing funding risk.

### **ii) Credit Risk**

Credit risk is the risk that a borrower will default on any type of debt by failing to make required payments. The risk is primarily that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs. The loss may be complete or partial and can arise in a number of circumstances. Currently, the Fund is unable to collect substantial portion of the loan portfolio and accrued interest on both Sugar and Coffee sectors. To this address this risk, the Fund has developed policies to ensure loans are granted to farmers with an appropriate credit history. The credit department assesses the credit quality of each borrower, taking into account their financial position, past credit experience and other factors.

**iii) Interest rate risk**

Interest rate risk is potential of the Fund forced to charge unsustainable interest rate on its loan products in order to retain its customers. The risk may be triggered by prescribed lending rate of competitors going lower than that of the Fund. The Fund has developed its loan products incorporating unique features that attract customers regardless of the interest aspects.

**iv) Operational Risks**

Operational risk is the potential of a loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk can widely occur in Fund due to human errors or mistakes. Examples of operational risk may be incorrect information filled in during clearing or loan processing.

The risk may be further categorized as follows:

- i) **Human risk:** Potential losses due to a human error, done willingly or unconsciously.
- ii) **System risk:** Potential losses due to system failures and programming errors.
- iii) **Processes risk:** Potential losses due to improper information processing, leaking or hacking of information and inaccuracy of data processing.

The Fund is in the currently implementing an ERP that will integrate all its processes in order to mitigate the exposure to such attacks and errors.

**7.0 Material arrears in statutory/financial obligation**

The Fund does not have any statutory arrears or any financial obligation to any government agency or lender.

**8.0 The entity probity and serious governance issues**

The external auditors have in the last three years raised concerns in the manner the assets of the former Sugar Development Fund were shared between Agriculture & Food Authority (AFA) and Commodities Fund. Further concerns were raised on continued interference with Funds' Mandate by AFA who until August 2016 continued to disburse loans to the Sugar Industry contrary to the provisions of Crops Act 2013 section 9 that give the mandate to Commodities Fund. The handing over is ongoing and it is expected to be completed soon.

## **VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT**

The Fund, as a Responsible Corporate citizen, continues to ensure that its mandate is carried out in a manner that not only brings about satisfaction to its stakeholders, but minding the proper management of the environment it operates in, and especially, fulfilling the social welfare of its immediate but needy neighbours and general public, with deliberate bias to the vulnerable of the society.

This is the basic principle that informs the Fund's CSR function and activities.

The Fund identifies its CSR activities to satisfy not only the good management of the environment and social needs of the Fund's neighbours and general public, but also to promote national values, national cohesion and human dignity.

During the financial year under review, the Fund actively played its role as a corporate citizen by sponsoring its staff members to take part during the Standard Chartered Marathon on 26 November October 2017. The Marathon is a project for 'Seeing is believing' community initiative aimed at raising funds for the needy in the community.

Also the Fund supported Children with heart conditions to access treatment by sponsoring its staff members to participate in the 26 May 2018 Mater Heart run.

The Fund donated food, clothing materials to Angels of Good Hope Children's home, in support for orphans and children living with HIV from Kibera slums, Nairobi.

In an effort to care for the environment among the farming community, the Fund donated over 44,000 grivellia Trees seedlings to 9 Coffee farmers' cooperative societies in four counties, namely: Makueni, Uasin Gishu, Kericho and Meru counties.

In the next financial year, the Fund shall continue to undertake these noble initiatives (and many more, within the capability of the Fund).

## **IX. REPORT OF THE DIRECTORS**

The Board of trustees submit their report together with the audited financial statements for the year ended ending 30<sup>th</sup> June 2018 which shows the Commodities Fund affairs.

### **1.0 Principal activities**

The principal purpose of the Fund is to provide sustainable, affordable credit and advances to farmers, co-operative societies, millers and out grower institutions for farm development, farm inputs, farming operations, farm machinery, factory rehabilitation and price stabilization.

### **2.0 Results**

The results of the Fund for the year ended June 30, 2018 are set out on page 25.

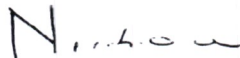
### **3.0 Trustees**

The Trustees who served for the year ended 30<sup>th</sup> June 2018 are shown on pages 4-6.

### **4.0 Auditors**

The Auditor General is responsible for the statutory audit of the Fund in accordance with the Article 229 of the constitution of Kenya and the Public Audit Act 2015.

By order of the Board.



**Nesline Gechuki Okiko**  
**Legal Manager**

Date: ...18.../...3.../2019

## **X. STATEMENT OF TRUSTEES' RESPONSIBILITIES**

Section 81 of the Public Finance Management Act, 2012 and the State Corporations Act, require the Trustees to prepare financial statements in respect of that Fund, which give a true and fair view of the state of affairs of the *Fund* at the end of the financial year/period and the operating results of the *Fund* for that year/period. The Trustees are also required to ensure that the *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 *entity*.

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

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

Except for the matter disclosed in note 25 to the financial statements nothing has come to the attention of the Trustees to indicate that the *Fund* will not remain a going concern for at least the next twelve months from the date of this statement.

### **Approval of the financial statements**

The *Fund's* financial statements were approved by the Board of Trustees on 27<sup>th</sup> September 2018 and signed on its behalf by:

Signed .....  
  
**Chairman, Finance, Staff & General Purposes Committee**

# REPUBLIC OF KENYA

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NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON COMMODITIES FUND FOR THE YEAR ENDED 30 JUNE 2018

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#### REPORT ON THE FINANCIAL STATEMENTS

#### Qualified Opinion

I have audited the accompanying financial statements of Commodities Fund set out on pages 26 to 57, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the 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 have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Commodities Fund as at 30 June 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012.

#### Basis for Qualified Opinion

##### 1. Long Outstanding Debtors

The statement of financial position and as disclosed in Note 15(iv) to the financial statements, reflects under non-current assets a balance of Kshs.7,854,811,000 in respect of loans and advances from exchange transactions as at 30 June 2018. The balance comprises amounts of Kshs.7,436,718,000 and Kshs.418,093,000 relating to Sugar and Coffee, respectively.

Although full provisions have been made on these long outstanding debts, their recovery remains doubtful due to the following reasons:

- (i) Some of the debtors are under receiverships and others have either ceased operations or scaled their operations down and therefore, amounts outstanding in their accounts may not be realized.

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*Report of the Auditor-General on the Financial Statements of Commodities Fund for the year ended 30 June 2018*

- (ii) Most of the balances have been outstanding for more than five years and there have been no movements in the balances.
- (iii) Some of the debtors, like Chemilil Sugar Company have disputed outstanding balances attributed to them.
- (iv) The Ministry of Agriculture instructed the defunct Kenya Sugar Board to disburse loans amounting to Kshs.5,293,432,334.35 to sugar companies and millers contrary to the then existing credit policy and hence their validity and collectability remains doubtful.
- (v) Included in the figure of Kshs.5,293,432,334.35 above is an amount totalling Kshs.201,925,790.20 relating to legal and receivership costs which are in dispute by the respective sugar firms.
- (vi) Further, included in the loan portfolio is a component of farmers, transporters, salaries arrears, transport fleet, infrastructure, legal and receivership fees that have been disputed by the debtors and consequently the amounts may never be realized.
- (vii) Although Parliament approved some outstanding amounts to be written off in 2014, no efforts have been made by the Fund to quantify the amounts to be written off and to seek advice of the National Treasury on the same.

## **2. Receivables from Non –Exchange Transactions**

The statement of financial position and as disclosed under Note 16 to the financial statements, reflects a balance of Kshs.47,184,000 under receivables from non-exchange transactions as at 30 June 2018. Included in the balance is an amount of Kshs.40,000,000 in respect of other debtors –Ministry. Records available indicate that the parent Ministry requested the management to remit the amount to support Chemilil Sugar Company and Coffee Sub Sector Implementation Committee, However, the terms of disbursement are not clear, and no supporting information has been provided for the same. Consequently, it has not been possible to ascertain whether the amount was a loan to Chemilil Sugar Company or the Coffee Sub Sector Implementation Committee.

A review of available records at Chemilil Sugar Limited revealed that the sugar company had not requested for the said loan totalling Kshs.40,000,000. According to the company management, the purpose for disbursing the amount was not stated and as a result, the company decided to use the amount to pay farmers. In addition, the same has not been captured in the company's books due to inability to determine how to account for it. Under the circumstances, the recoverability of the outstanding balance of Kshs.40,000,000 appear doubtful.

### **3. Trade and Other Payables from Exchange Transactions (Creditors and Accruals)**

The statement of financial positions reflects a balance of Kshs.20,782,000 under trade and other payables from exchange transactions as at 30 June 2018. As disclosed in Note 20 to the financial statements, the balance includes an amount of Kshs.9,219,000 relating to payment received in advance. Included in the amount received in advance is Kshs.4,828,051 described as unidentified repayments as at 30 June 2018. This amount has been accruing over the years and the Fund Management has made little effort to reconcile the balance. Under the circumstances, the validity of the payment received in advance figure of Kshs.9,219,000 cannot be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Commodities Fund in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

#### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections, I have determined that there are no Key Audit Matters to communicate in my report.

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

##### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

## **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

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

### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

### **Basis for Conclusion**

#### **1. Legal Status of the Fund**

The Crops Act, No.13 of 2013, which created the Fund did not spell out clearly the mandate of the Fund's Board of Trustees as well as its powers and responsibilities. Consequently, the Fund's Board of Trustees ability to work independently and effectively in the absence of clear laws on its mandate, powers and responsibilities is doubtful. The Fund is not established as a body corporate having perpetual succession and a common seal and may not, in its corporate name, sue and be sued, which hinders its operations.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

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

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

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

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

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

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

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

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed 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.

Further, in planning and performing the audit of the financial statements and audit of compliance, I 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. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

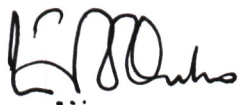
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of Commodities Fund to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease sustaining its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Commodities Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

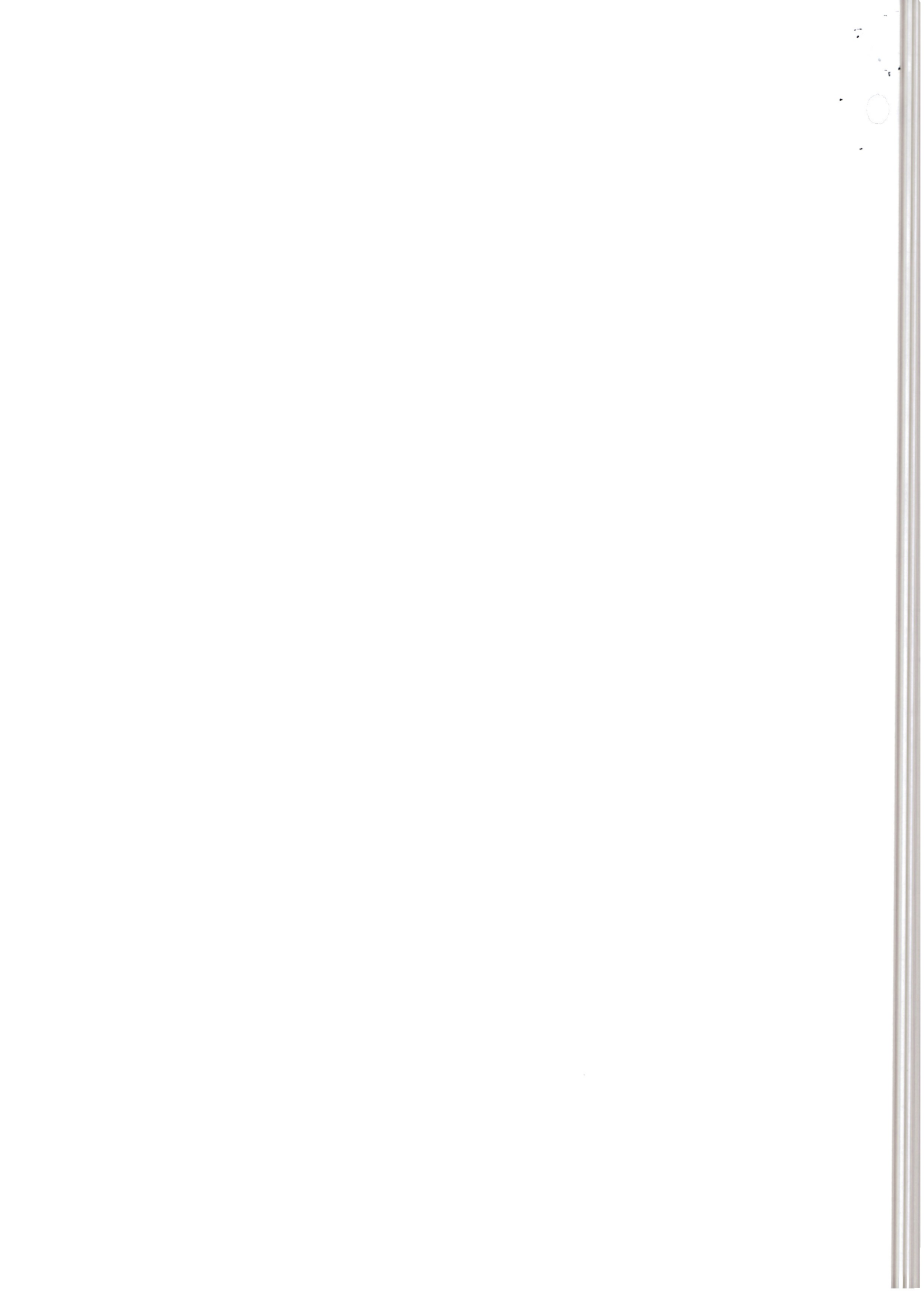
I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



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

**Nairobi**

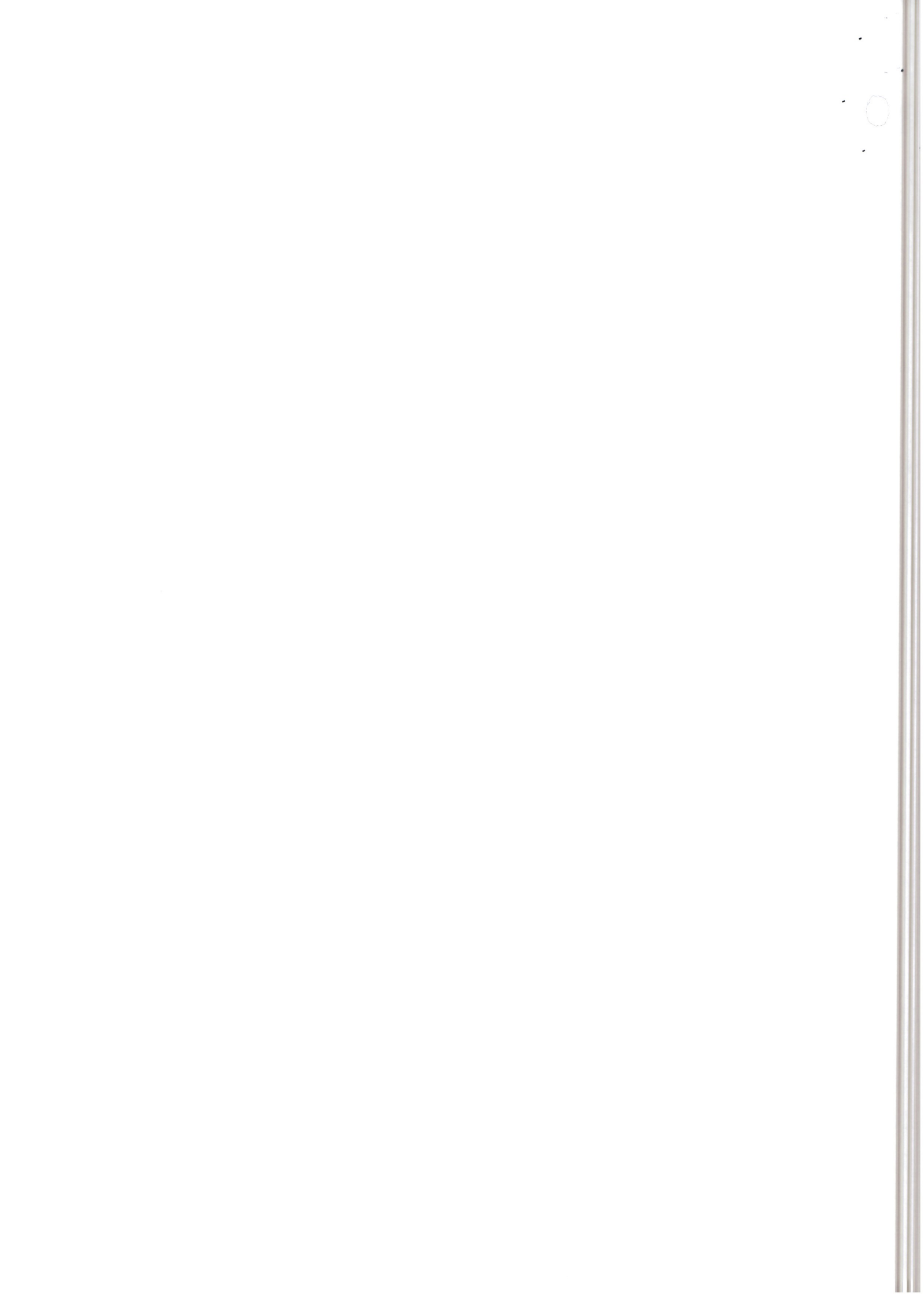
**11 April 2019**



Commodities Fund  
Annual Report and Financial Statements for the Year ended 30<sup>th</sup> June 2018

**XI. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED  
30TH JUNE 2018**


	NOTES	2017/18	2016/17
		<u>Kshs '000</u>	<u>Kshs '000</u>
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Finance income - External investments	6	620,136	662,842
Other income	7	<u>4,571</u>	<u>6,065</u>
<b>Total revenue</b>		<b><u>624,706</u></b>	<b><u>668,906</u></b>
<b>Expenses</b>			
Employee cost	8	96,794	92,326
Board Expenses	9	20,068	5,156
Depreciation and amortization expense	10	18,068	16,069
Repairs and maintenance	11	7,106	7,049
General Expenses	12	<u>474,612</u>	<u>2,349,347</u>
<b>Total expenses</b>		<b><u>616,648</u></b>	<b><u>2,469,947</u></b>
<b>Other gains / (Losses)</b>			
<b>Gain on Sale of Assets</b>	13	<b>2,403</b>	<b>-</b>
<b>Surplus/(Deficit) for the period</b>		<b><u>10,461</u></b>	<b><u>(1,801,041)</u></b>




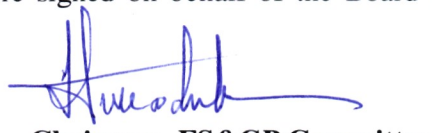
**XII. STATEMENT OF FINANCIAL POSITION AS AT 30<sup>TH</sup> JUNE 2018**

	Notes	<b>2017/2018</b> <b><u>Kshs '000</u></b>	<b>2016/2017</b> <b><u>Kshs '000</u></b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	14	945,714	1,178,021
Current receivables from exchange transactions-Interest Receivable on Investment	15(1)	8,613	14,084
Current receivables from exchange transactions-Interest on Loans & Advances	15(ii)	1,305,567	911,186
Current Receivables from exchange transactions- Loans and advances	15(iii)	829,483	805,805
Receivables from non-exchange transactions	16	47,184	46,280
Inventory- Consumables	17	<u>640</u>	<u>756</u>
<b>Total Current Assets</b>		<b><u>3,137,202</u></b>	<b><u>2,956,132</u></b>
<b>Non-current assets</b>			
Property, plant and equipment	18	73,973	62,929
Investments	19	137,400	76,500
Loans and Advances from exchange transactions	15(iv)	<u>7,854,811</u>	<u>7,246,862</u>
<b>Total non-current assets</b>		<b><u>8,066,184</u></b>	<b><u>7,386,291</u></b>
<b>Total assets</b>		<b><u>11,203,386</u></b>	<b><u>10,342,423</u></b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables from exchange transactions(Creditors and accruals)	20	20,782	66,007
<b>Total liabilities</b>		<b><u>20,782</u></b>	<b><u>66,007</u></b>
<b>Net assets</b>		<b><u>11,182,604</u></b>	<b><u>10,276,416</u></b>
Reserves	21	15,233,139	14,337,413
Accumulated surplus	22	<u>(4,050,535)</u>	<u>-4,060,997</u>
<b>Total net assets and liabilities</b>		<b><u>11,182,604</u></b>	<b><u>10,276,416</u></b>

The Financial statement set out on pages 27 to 62 were signed on behalf of the Board of Directors by:

  
**Managing Trustee**  
Nancy C. Cheruiyot

  
**Finance Manager**  
Silas N Njagi  
ICPAK No.5078

  
**Chairman, FS&GP Committee**  
Henry H. Duba

Date...18.03.19

Date...18.03.19

Date...18.03.19

**XIV. STATEMENT OF CHANGES IN NET ASSETS**

For the year ended 30 June 2018

Notes	Revolving fund Sugar	Revolving Fund Coffee Kshs '000	Reserves			Total Kshs '000
			Grants reserve Kshs '000	Revaluation Reserve Kshs '000	Revenue Reserve Kshs '000	
<b>Balance As At 01.07. 2016</b>	12,662,074	1,675,206	-	3,421	(2,330,631)	12,010,070
Adjustment of overstated Loans Interest reported 2015/2016 Nzoia out Growers		-	-	-	(6,053)	(6,053)
Adjustment of overstated Loans Balances reported 2015/2016 Chemilili Sugar Company	(1,458)					(1,458)
Adjustment of overstated Loans Balances reported 2015/2016 Mumias Sugar Company	(300)					(300)
Adjustment of overstated Loans Balances reported 2015/2016 Butali Sugar Company	(1,530)					(1,530)
Adjustment of Commissions Payable Reversed Surplus for the year	-	-	-	-	76,728	76,728
	-	-	-	-	(1,801,041)	(1,801,041)
	=	=	=	=	=	=
<b>Balance As At 30 JUNE 2017</b>	<b>12,658,786</b>	<b>1,675,206</b>	<b>=</b>	<b>3,421</b>	<b>(4,060,997)</b>	<b>10,276,416</b>
<b>Balance As At 01.07. 2017</b>	<b>12,658,786</b>	<b>1,675,206</b>	<b>-</b>	<b>3,421</b>	<b>(4,060,997)</b>	<b>10,276,416</b>
<b>Loans Taken Over by AFA</b>	<b>895,726</b>					<b>895,726</b>
Surplus for the year	-	-	-	-	10,462	10,462
	=	=	=	=	=	=
<b>Balance As At 30 JUNE 2018</b>	<b>13,554,512</b>	<b>1,675,206</b>	<b>=</b>	<b>3,421</b>	<b>(4,050,535)</b>	<b>11,182,604</b>

**XIII. STATEMENT OF CASH FLOWS AS AT 30TH JUNE 2018**

<b>Cash generated from operations</b>	<b>Notes</b>	<b>2017/2018</b> <b><u>Kshs 000</u></b>	<b>2016/2017</b> <b><u>Kshs 000</u></b>
<b>Surplus/(Deficit) for the year before tax</b>		<b>10,462</b>	<b>(1,801,041)</b>
Adjusted for:			
Depreciation	10	18,068	16,069
Non-cash adjustment to equity		(405,624)	(2,210,004)
Contributed assets			
Impairment			
Gains and losses on disposal of assets		(2,403)	
Contribution to provisions		405,624	2,277,391
Contribution to impairment allowance			
Finance income-External investment- Non Exchange Transactions	6(i)	(68,778)	(129,386)
Finance cost			
<b>Working capital adjustments:</b>			
Decrease in current & non-current receivables from exchange transaction - loans and Advances		(631,627)	1,110,276
Decrease in current receivable from exchange and non-exchange transaction.		(389,814)	340,626
Decrease in deferred income			
Decrease in trade and other payables from exchange transactions (Creditors & Accruals)		(45,225)	(43,510)
Increase in inventory- Consumables		116	(756.00)
<b>Net cash flows from operating activities</b>		<b><u>(1,109,201)</u></b>	<b><u>(440,335)</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant, equipment and intangible assets	18	(29,112)	(28,624)
Proceeds from disposal of Assets		2,403	-
Investment-HFCK Mortgage Scheme	19	(60,900)	
Finance Income -External Investment -non Exchange Transactions	6(i)	68,778	129,386
<b>Net cash flows used in investing activities</b>		<b><u>(18,831)</u></b>	<b><u>100,763</u></b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings			
Repayment of borrowings			
Loans Taken Over From AFA		895,726-	-
Capital grants from government			
<b>Net cash flows used in financing activities</b>		<b>895,726</b>	<b>-</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b><u>(232,305)</u></b>	<b><u>-339,572</u></b>
Cash and cash equivalents as at 1 July 2017		<u>1,178,021</u>	<u>1,517,593</u>
<b>Cash and cash equivalents at 30 June 2018</b>	<b>13</b>	<b><u>945,714</u></b>	<b><u>1,178,021</u></b>

**XIV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% change
ITEM DESCRIPTION	2017-2018	2017-2018	2017-2018	2017-2018	2017-2018	
EXPECTED REVENUE	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	
Internally Generated Funds	655,652	-	655,652	620,136	(35,516)	-5%
Government Grants- Recurrent	-	-	-	-	-	
Grants – AFFA	-	-	-	-	-	
Other Income from Recurrent	11,350	-	11,350	4,571	(6,779)	
Gain on Disposal of Asset	-	-	-	2,403	2,403	
<b>Total Revenue</b>	<b>667,002</b>	<b>-</b>	<b>667,002</b>	<b>627,110</b>	<b>(39,891)</b>	<b>-6%</b>
Less: AFFA Corporate Disbursement	-	-	-	-	-	
<b>Total Revenue after Disbursements</b>	<b>667,002</b>	<b>-</b>	<b>667,002</b>	<b>627,110</b>	<b>(39,891)</b>	<b>-6%</b>
<b>PERSONNEL COSTS</b>						
Basic Pay	62,286	-	62,286	41,720	20,566	33%
House Allowance	18,084	-	18,084	10,368	7,716	43%
Commuter Allowance	8,078	-	8,078	2,683	5,395	67%
Airtime Allowance	4,006	-	4,006	1,251	2,755	69%
Entertainment Allowance	1,716	-	1,716	660	1,056	62%
Extraneous Allowance	185	-	185	168	17	9%
Leave Allowance	1,325	-	1,325	942	383	29%
Pension/Gratuity	11,372	-	11,372	6,702	4,670	41%
NSSF	90	-	90	111	(21)	-24%
Medical expenses	14,850	-	14,850	8,255	6,595	44%
Acting Allowance	1,306	-	1,306	794	512	39%
Transfer Allowance Responsibility	1,500	-	1,500	783	717	48%
Allowance	-	-	-	-	-	
Special Duty allowance	-	-	-	-	-	
<b>Sub Total</b>	<b>124,798</b>	<b>-</b>	<b>124,798</b>	<b>74,437</b>	<b>50,361</b>	<b>40%</b>
<b>BOARD EXPENSES</b>						
Sitting Allowance	4,140	-	4,140	7,320	(3,180)	-77%
Accommodation and Subsistence	1,690	-	1,690	6,974	(5,284)	-313%
Sub -Committee Sitting Allowance	-	-	-	-	-	
Corporate Governance Trainings Seminars & Retreats	2,500	-	2,500	3,199	(699)	-28%
Chairman's Honorarium	960	-	960	-	960	100%

Commodities Fund  
Annual Report and Financial Statements for the Year ended 30<sup>th</sup> June 2018

Farmers travel committees	-	-	-	-	-	
Millage	1,725	-	1,725	639	1,086	63%
Snacks for board Meetings	600	-	600	354	246	41%
Lunch allowance	414	-	414	168	246	59%
Board Medical Insurance	600	-	600	212	388	65%
All Directors- Travel	7,230	-	7,230	1,202	6,028	83%
Telephone and Postage	84	-	84	-	84	
Other BOT Expenses	-	-	-	-	-	
<b>Sub Total</b>	<b>19,943</b>	<b>-</b>	<b>19,943</b>	<b>20,068</b>	<b>(125)</b>	<b>-1%</b>
<b>OPERATING EXPENSES/ADMINISTRATIVE EXPENSE</b>						
<b>Credit &amp; Field Activities</b>						
a) Loan Monitoring & Evaluation	15,509	7,000	8,509	9,887	(1,378)	-16%
b) Stakeholders Forum Expenses	6,905	-	6,905	1,666	5,239	76%
c) Debt Collection Expenses	8,514	-	8,514	513	8,001	94%
d) Product Promotion	4,000	2,000	2,000	-	2,000	100%
e) Loans Provision	228,109	-	228,109	405,624	(177,515)	-78%
f) Credit Assurance	-	-	-	-	-	-
g) ICPP Activities	11,295	6,000	5,295	1,568	3,727	70%
<b>Sub Total</b>	<b>274,332</b>	<b>15,000</b>	<b>259,332</b>	<b>419,257</b>	<b>(159,925)</b>	<b>-62%</b>
<b>Corporate Communication</b>						
a) Publicity Materials, Branding & Advertising	11,058	920	10,138	3,133	7,005	69%
b) Public relations and corporate branding	-	-	-	-	-	
c) Shows , Exhibitions & trade fairs	6,397	2,832	3,565	3,639	(74)	-2%
d) Corporate Social Responsibility	2,250	-	2,250	1,655	595	26%
e) Subscriptions to Associations	1,860	-	1,860	589	1,271	68%
<b>Sub Total</b>	<b>21,565</b>	<b>3,752</b>	<b>17,813</b>	<b>9,016</b>	<b>8,797</b>	<b>49%</b>
<b>Human Resource Costs</b>						
a) Staff Welfare	2,700	200	2,500	2,378	122	5%
c) Trainings, Seminar, Retreats and Workshops	19,224	7,609	11,615	12,044	(429)	-4%
d) Consultancies	3,300	-	3,300	3,691	(391)	-12%
e) Subscriptions to Professional Bodies	250	-	250	129	121	48%

Commodities Fund  
Annual Report and Financial Statements for the Year ended 30<sup>th</sup> June 2018

f) Staff Uniforms	150	-	150	150	100%
g) Internships and attachment	-	-	-	-	
<b>Sub Total</b>	<b>25,624</b>	<b>7,809</b>	<b>17,815</b>	<b>18,242</b>	<b>(427)</b> -2%
<b>Audit Expense</b>					
a) Audit Fees	750	-	750	807	(57) -8%
b) Systems Audit	-	-	-	-	
c) Internal Audit	5,778	3,000	2,778	2,485	293 11%
d) Risk and Risk Management	1,200	-	1,200	1,317	(117) -10%
e) ISO Audits	2,000	-	2,000	826	1,174 59%
<b>Sub Total</b>	<b>9,728</b>	<b>3,000</b>	<b>6,728</b>	<b>5,435</b>	<b>1,293</b> 19%
<b>Legal Costs</b>					
a) Legal Services	3,500	-	3,500	1,916	1,584 45%
b) Travel & Subsistence	846	-	846	846	
c) Workshops	-	-	-	-	
<b>Sub Total</b>	<b>4,346</b>	<b>-</b>	<b>4,346</b>	<b>1,916</b>	<b>2,430</b> 56%
<b>Finance &amp; Administration</b>					
a) Office Expenses					
i. common user items-Printing and Stationery	4,380	-	4,380	3,949	431 10%
ii. Communication Telephone and Postage	610	-	610	465	145 24%
iii. Email And Internet	840	-	840	799	41 5%
b) General Expenses	-	-	-	-	
c) Vehicle Running Expenses	-	-	-	-	
i. Fuel	5,028	1,000	4,028	4,337	(309) -8%
ii. Insurance	3,143	-	3,143	1,643	1,500 48%
d) Insurance Expenses	3,917	-	3,917	1,931	1,986 51%
e) Local Travelling Expenses	11,874	3,070	8,804	9,985	(1,181) -13%
f) International travel	9,490	-	9,490	5,727	3,763 40%
h) Security	2,760	(1,000)	3,760	906	2,854 76%
i) Utilities- Electricity and water	1,320	-	1,320	980	340 26%
j) Rent and rates	11,370	(3,000)	14,370	9,917	4,453 31%
k) Retreats	-	-	-	-	
l) Computer Accessories	-	-	-	-	
m) Record management	-	-	-	-	
n) Cleaning, Garbage & Sanitary	600	-	600	272	328 55%
o) Management Fees	1,280	-	1,280	1,057	223 17%

Commodities Fund  
Annual Report and Financial Statements for the Year ended 30<sup>th</sup> June 2018

p) Newspapers, Periodicals, Journals and subscriptions	613	-	613	344	269	44%
q) Airticket	-	-	-	-	-	
r) Advertising and Publicity	-	-	-	-	-	
s) Bank Charges	650	-	650	792	(142)	-22%
t) Hire of taxi	-	-	-	-	-	
<b>Sub Total</b>	<b>57,875</b>	<b>70</b>	<b>57,806</b>	<b>43,104</b>	<b>14,701</b>	<b>25%</b>
<b>FOOD CROPS</b>	-	-	-	-	-	
<b>REPAIRS AND MAINTENANCE</b>						
a) Automobiles	2,697	-	2,697	2,246	451	17%
b) Buildings	650	-	650	521	129	20%
c) Computers & Equipments	5,300	-	5,300	4,339	961	18%
d) Others-Furniture and Fittings	-	-	-	-	-	
<b>Sub Total</b>	<b>8,647</b>	-	<b>8,647</b>	<b>7,106</b>	<b>1,541</b>	<b>18%</b>
<b>TOTAL EXPENDITURE</b>	<b>546,858</b>	<b>29,631</b>	<b>517,226</b>	<b>598,582</b>	<b>(81,353)</b>	<b>-16%</b>
<b>OPERATING SURPLUS/(DEFICIT)</b>	<b>120,144</b>	<b>(29,631)</b>	<b>149,776</b>	<b>28,529</b>	<b>(121,247)</b>	<b>-81%</b>
<b>DEPRECIATION AND AMORTIZAION</b>	<b>40,535</b>	-	<b>40,535</b>	<b>18,068</b>	<b>22,467</b>	<b>55%</b>
<b>SURPLUS/(DEFICIT)</b>	<b>79,609</b>	<b>(29,631)</b>	<b>109,241</b>	<b>10,461</b>	<b>(98,780)</b>	<b>-90%</b>
<b>CAPITAL EXPENDITURE</b>						
a) Buildings	-	-	-	-	-	
b) Plant and Equipment	300	(2,500)	2,800	2,860	(60)	-2%
c) Laboratory	-	-	-	-	-	
d) Automobiles	12,000	-	12,000	11,993	7	0%
e) Computer and Electronic Equipments	22,250	4,500	17,750	11,984	5,766	32%
f) Office and Communication Equipment	-	-	-	-	-	
g) Furniture and Fittings	2,480	(2,000)	4,480	2,275	2,205	49%
<b>Total Capital Budget</b>	<b>37,030</b>	-	<b>37,030</b>	<b>29,112</b>	<b>7,918</b>	<b>21%</b>
<b>OVERALL SURPLUS/(DEFICIT)</b>	<b><u>42,579</u></b>	<b><u>(29,631)</u></b>	<b><u>72,211</u></b>	<b><u>(18,651)</u></b>	<b><u>(90,863)</u></b>	<b>-126%</b>

NOTES EXPLAINING THE VARIANCES BETWEEN THE BUDGET AND THE ACTUAL AMOUNTS

## **1. Revenues**

The internally generated income which include interest on loans and investments amounted to Kshs. 620,136,000 against budget of Kshs. 655,652,000 falling short of the budget by Kshs. 35,516,000. The shortfall is attributed to less amounts disbursed compared to the budgeted amount and interest capping by central bank which affected income from investments.

Other incomes include loan processing fee and gain on disposal of an asset which amounted to Kshs. 6,974,000. The loan processing fee totaled Kshs. 4,571,000 compared to a budget of Kshs. 11,350,000 resulting to unfavorable variance of Kshs. 6,779,000. The variance is attributed to a shortfall on loans disbursement compared to targeted amounts in addition to that there was over budgeting of the said vote in question.

## **2. Personnel expenditure**

The Actual personnel expenditure was Kshs. 74,437,000 against budget of Kshs. 124,798,000 resulting to positive variance of Kshs. 50,361,000. The huge variance under the vote was due to the fact that the budgeted salary adjustments were not implemented pending conclusion of on-going job evaluation exercise. Secondly the Fund had budgeted to employ additional staff in the core department during the year but this is yet to be implemented.

## **3. Board expenses**

The Board expenses amounted to Kshs. 20,068,000 against budget of Kshs. 19,943,000 resulting to negative variance of Kshs. 125,000. The Board of Trustees was constituted in the last quarter of the Financial Year 2016/2017 hence necessitating them to hold more meetings to approve all matters which were pending at the time of the appointment hence the small amount being overspent.

## **4. Credit Management Expenses**

The actual Credit Management expenses were Kshs. 419,257,000 against a budget of Kshs. 259,332,000 resulting to a negative variance of Kshs 159,925,000. This huge negative variance was as a result huge provision for Non-performing loans and associated interest. Provisions amounted to Kshs. 405,624,000 against the budgeted figure of Kshs. 228,109,000. The Sugar sector particularly performed very poorly and almost government owned millers are unable to service their loans. Again the sugar cane out grower institutions within the catchment of the government owned millers have also collapsed and debts owed by them are not serviced. As a result, the Fund has adopted new provision policy to caution itself against these non-performing loans.

## **5. Corporate Communications**

Corporate communications vote incurred Kshs. 9,016,000 against a budget of Kshs. 17,813,000 resulting to positive variance of Kshs. 8,797,000. The Fund had anticipated to spend more funds while carrying out branding and marketing activities in the newly opened branches. However, the Fund did not spend a lot hence the variance.

## **5. Human Resources**

Human resource vote comprising of training, staff welfare and consultancies incurred a total of Kshs. 18,242,000 against budgeted amounts of Kshs. 17,815,000 resulting to a negative variance of Kshs. 427,000. The variance was mainly as a result of under budgeting of trainings and consultancies expenditures.

## **7. Audit Expenses**

Audit Expense incurred stands at Kshs. 5,435,000 against a budget of Kshs. 6,728,000 resulting to positive variance of Kshs. 1,293,000. The variance is attributed to activities that were not completed during the year such as Risk Management and other related costs.

#### **8. Legal Expenses**

Legal cost vote incurred Kshs. 1,916,000 against a budget of Kshs. 4,346,000 resulting to a positive variance of Kshs. 2,430,000. The variance is attributed to the fact that only one of the anticipated legal matters was concluded in the Financial Year and part payment was made. The remaining portion will be made in the financial Year 2018/19. The second matter is yet to be concluded.

#### **9. Finance and Administrative Cost**

Finance & Administrative cost amounted to Kshs. 43,104,000 against a budget of Kshs. 57,806,000 resulting to a positive variance of Kshs. 14,701,000. This positive variance is as result of delay in the opening of branches where some funds would have been spent to pay rent, water, electricity, cleaning, and Security. The opening of the branches commenced in the middle of the Financial year and in addition to that the Fund procured the offices at a cheaper rate other than anticipated.

#### **10. Capital Expenditure**

The Fund capital expenditures budget was Kshs 37,030,000 while the actual amount incurred stood at Kshs 29,112,000. The positive variance of Kshs 7,918,000 was as result of under expenditures on ICT Related items as well as cost relating to fully partitioning of the Nyeri, Embu, Nakuru and Meru branch offices .

## XV. NOTES TO THE FINANCIAL STATEMENTS

### 1. General Information

Commodities Fund is established by and derives its authority and accountability from Crops Act 2013 (Section 9). The Fund is wholly owned by the Government of Kenya and is domiciled in Kenya. The Fund's principal activity is to provide sustainable, affordable and accessible credit and advances to farmers.

### 2. Statement of Compliance and Basis of Preparation

The Fund's 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, Marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying Commodities Fund accounting policies.

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

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

The cash flow statement is prepared using the indirect method. The financial statements are prepared on accrual basis.

### 3. Adoption of New and Revised Standards

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

Standard	Impact
IPSAS 39: Employee Benefits	<b>Applicable: 1<sup>st</sup> January 2018</b> The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017**

<b>Standard</b>	<b>Effective date and impact:</b>
<b>IPSAS 40: Public Sector Combinations</b>	<b>Applicable: 1<sup>st</sup> January 2019:</b> The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non-exchange transactions which are covered purely under Public Sector combinations as amalgamations.

**iii) Early adoption of standards**

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

**4. Summary of Significant Accounting Policies**

**a) Revenue recognition**

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

**Fees and Commission Income**

Fees and commission income is generally recognized on an accrual basis.

**ii) Revenue from exchange transactions**

**Interest income**

Interest income is recognized on an accruals basis in the Statement of Comprehensive Income using the effective yield on the loan. When financial assets become impaired, any inherent income/revenue is thereafter recognized at rates used to discount future cash flows for the purpose of measuring the recoverable amount.

➤ **Interest Income and Expense**

Interest income and expenses are recognized in the Statement of Comprehensive Income for all interest bearing Instrument on an accrual basis taking into account the effective yield on the assets.

➤ **Interest Computation**

The Fund's loans are on lent to coffee farmers at a rate of 10% per annum. In addition, loans to sugar industry are lent at 5% per annum.

**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 Fund. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or Fund differences that would require reconciliation between the actual comparable amounts and the amounts

## **NOTES TO THE FINANCIAL STATEMENTS (Continued)**

presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

### **c) Taxation**

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Fund operates and generates taxable income or consumes taxable goods and services.

Current tax obligation is amount recovered in process of payment for goods and services attracting taxes which the Fund is required to recover and submit to tax authority.

### **d) Property, plant and equipment**

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

Depreciation is calculated on a straight-line basis to write down the cost of each asset to its residual value over its estimated useful life using the following annual rates.

Motor Vehicles	-	25%
Office Equipment	-	20%
Computers, Copiers, Faxes	-	33 <sup>1</sup> / <sub>3</sub> %
Furniture and Fittings	-	12.5%

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Property and equipment are periodically reviewed for impairment. Where the carrying amount of property and equipment is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains or losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating surplus.

### **e) Financial Instruments**

#### **Financial Assets Initial Recognition**

## **NOTES TO THE FINANCIAL STATEMENTS (Continued)**

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Entity determines the classification of its financial assets at initial recognition.

### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

### **Impairment of financial Asset**

#### **Originating loans and provision for loans impairment**

Loans are originated by the Fund by providing money to the coffee farmers and sugar companies/ sugarcane out growers' institutions and are categorized as loans originated by the Fund.

Specific provision is made against loans and advances considered to be doubtful of recovery. The amount of provision is the difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows including amounts recoverable from guarantors and collateral, discounted at the effective interest rate of loans.

The Management have reviewed its Credit Policy where Provisioning rates were revised and adopted as follows:

- Not due 0%
- 0-1 year 1%
- 1-3 years 2%
- 3-5 years 15%
- Above 5 years 100%.

Where a loan or an advance is deemed irrecoverable, it is written off against the related provision for impairments. Subsequent recoveries of amount previously written off are credited to the Statement of Financial Performance in the year of recovery. Loans and advances are stated after deduction of specific and general provisions.

### **Financial Liabilities-Payables**

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

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**f) 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 of completion and the estimated costs necessary to make the sale, exchange, or distribution.

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

**g) 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.

The Fund has made a provision of Kshs. 850,000 relating to legal fees arising from the conclusion of a case in which former employee had sued claiming of unlawful dismissal

**h) Nature and purpose of reserves**

The Fund has created and maintained reserves in terms of specific requirements. For this purpose the Fund maintains capital reserves where all capital grants meant for loans disbursement are accumulated. In addition the Fund maintains revaluation reserves where appreciation in value of assets is credited. An accumulated surplus reserve is also maintained where the surpluses/deficits resulting from the performance are accumulated

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

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

**j) Employee benefits  
Retirement benefit plans**

The Fund sponsors a defined contribution pension scheme for its employees funded partly by the Fund 20% and staff 10% and administered by external providers. Fund's obligation towards the scheme is limited to its 20% contribution which if not wholly limited, the unlimited portion is accrued in the financial statements at the year end.

## **NOTES TO THE FINANCIAL STATEMENTS (Continued)**

The Fund also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF) a national retirement benefit scheme. This is a defined contribution scheme registered under the National Social Security Act. The Fund's obligation under the scheme is limited to the specific contributions legislated by government from time to time. Fund's contribution towards the two schemes is charged in the financial statements.

### **k) Related Parties**

The Management regards a related party as a person or an authority with the ability to exert control individually, jointly or to exercise significant influence over the Management, or vice versa. Within the Fund, Trustees and members of key management are viewed as related parties while outside the Fund, Agriculture and Food Authority (AFA) was taken as related party. The Fund got its first trustees in the last quarter of the year.

### **l) 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 various commercial banks at the end of the financial year.

### **m) Comparative figures**

Comparative figures represent figures for the (12) months period ended 30<sup>th</sup> June, 2016 and were necessary restated to conform to the requirement of IPSAS.

### **n) 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, 2018.

## **5. Significant Judgements and Sources of Estimation Uncertainty**

### **Estimates and Assumptions**

In the process of applying the Fund's accounting policies, the Fund's Management make certain judgments, estimates and assumptions that are continuously evaluated and assessed for adjustments based on prior experience and other determinants, including expectations of future events that are believed to be reasonable under the prevailing circumstances. Although these estimates are based on the Management best knowledge of current events and actions, in practice actual results may differ from these estimates. Such estimates and assumptions 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 in these notes to the Financial Statements.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**a) Key sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position date that has a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year:

**b) Equipment**

Critical estimates are made by the Management in determining depreciation rates of equipment.

**c) Impairment**

At each statement of financial position date, the management reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, managements estimates the recoverable amount of the cash generating unit to which the asset belongs.

**d) Provisions and contingent liabilities**

Management reviews Fund's obligations at each balance sheet date to determine whether provisions need to be made. Where it is determined provisions are required, estimation is based on existing internal policy of the Fund.

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

***Contingent liabilities***

The Fund 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 Fund 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 Fund 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.

**6. Finance income - external investments**

	<b>2017/2018</b>	<b>2016/2017</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
Interest Income From Treasury Bonds	9,180	9,180
Cash Investment and Fixed deposits- Received Income	50,985	106,123

Commodities Fund  
Annual Report and Financial Statements for the Year ended 30<sup>th</sup> June 2018

- Accrued Income	8,613	14,084
Interest Income Loans Debtors -Coffee Portfolio	101,010	98,508
-Sugar Portfolio	450,348	434,947
<b>Total finance income – external investments</b>	<b><u>620,136</u></b>	<b><u>662,842</u></b>
<b>7. Other income</b>		
	<b>2017/2018</b>	<b>2016/2017</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
Loan Processing fee	4,571	6,065
Others	=	=
<b>Total other income</b>	<b><u>4,571</u></b>	<b><u>6,065</u></b>
<b>8. Employee costs</b>		
	<b>2017/2018</b>	<b>2016/2017</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
Salaries & wages	42,123	36,784
Employee related cost-Pensions contributions & Medical Aids	14,665	11,799
Travel, accommodation, subsistence and other allowances	22,357	29,102
Housing benefits and allowances	17,649	14,641
Staff Gratuity	=	=
<b>Total Employee Costs</b>	<b><u>96,794</u></b>	<b><u>92,326</u></b>
<b>9. Remunerations of Directors</b>		
	<b>2017/2018</b>	<b>2016/2017</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
Chairman's Honorarium	-	-
Directors Sitting, accommodation & Subsistence Allowances	13,839	2,643
Others( Trainings, medical, Travel etc)	6,228	2,513
<b>Total Remunerations of Directors</b>	<b><u>20,068</u></b>	<b><u>5,156</u></b>
<b>10. Depreciation and amortization expense</b>		
	<b>2017/2018</b>	<b>2016/2017</b>
	<b>Kshs 000</b>	<b>Kshs 000</b>
Property, plant and equipment	<u>18,068</u>	<u>16,069</u>
<b>Total depreciation and amortization</b>	<b><u>18,068</u></b>	<b><u>16,069</u></b>
<b>11. Repairs and maintenance</b>		
	<b>2017/2018</b>	<b>2016/2017</b>
	<b>Kshs 000</b>	<b>Kshs 000</b>
Buildings	521	748
	2,246	2,678

Commodities Fund  
Annual Report and Financial Statements for the Year ended 30<sup>th</sup> June 2018

Automobiles		
Computer and Electronic Equipment	4,248	3,509
Office and Communication Equipment	-	-
Furniture and Fittings	91	114
<b>Total repairs and maintenance</b>	<b><u>7,106</u></b>	<b><u>7,049</u></b>

## 12. General expenses

	<b>2017/2018</b>	<b>2016/2017</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
Printing and Stationery	3,189	1,673
Communication Telephone and Postage	1,264	1,181
Vehicle Running Expenses	4,337	3,731
Insurance Expenses	3,574	3,859
Stakeholder Forum Expenses	1,666	1,978
International travel	5,727	10,428
Security	906	503
Electricity and water	980	664
Rent and rates	9,917	8,271
Computer Accessories	-	63
Cleaning, Garbage & Sanitary	272	601
Management Fees	1,057	1,079
Newspapers, Periodicals, Journals and subscriptions	344	306
Advertising and Publicity	3,133	5,470
Bank Charges	792	597
Staff Welfare	2,303	1,820
Trainings, Seminar, Retreats and Workshops	12,044	15,861
Consultancies	3,691	2,224
Subscriptions to Professional Bodies	794	644
Audit Fees	807	919
Legal Services	1,916	564
Shows , Exhibitions & trade fairs	3,639	5,216
Corporate Social Responsibility	1,655	491
Provision for bad debts	405,624	2,277,391
Office general expenses	3,415	2,885
ICCP Expenses	1,568	933
<b>Total general expenses</b>	<b><u>474,612</u></b>	<b><u>2,349,347</u></b>

## 13. Gain on Disposal of Asset

	<b>2017/2018</b>	<b>2016/2017</b>
	<b><u>Kshs 000</u></b>	<b><u>Kshs 000</u></b>
Gain in Disposal of Motor Vehicle	2,403	=
<b>Total Gain on Disposal of Asset</b>	<b><u>2,403</u></b>	<b>=</b>

## 14. Cash and cash equivalents

Commodities Fund  
Annual Report and Financial Statements for the Year ended 30<sup>th</sup> June 2018

	<b>2017/2018</b>	<b>2016/2017</b>
	<b><u>Kshs 000</u></b>	<b><u>Kshs 000</u></b>
<b>(a) Bank</b>		
Current Accounts	86,706	17,868
On call deposits	124,524	-
Fixed Deposits	729,974	1,155,954
Others		
Safaricom –Mkahawa	423	1,440
-Pay Bill	4,087	2,637
-Cash on hand	-	<u>121</u>
<b>Total Cash and cash equivalents</b>	<b><u>945,714</u></b>	<b><u>1,178,021</u></b>

**14 (a) Detailed analysis Cash and cash equivalents**

<b>Financial Institution</b>	<b>Account number</b>	<b>2017/2018</b>	<b>2016/2017</b>
		<b><u>Kshs 000</u></b>	<b><u>Kshs 000</u></b>
<b>a) Current Account</b>			
Cooperative Bank (a)	O1136030994600	8,248	8,761
(b)	O1136030994601	2,246	751
(c)	O1136035349800	9,113	3,250
National Bank	O1345061389300	67,073	5,072
Sidian Bank	O1033020007800	10.7	16
Equity Bank	O1330299214184	0.4	7
Family Bank	O14000033336	7.8	1
Kenya Commercial Bank	1132784905	6.1	10
<b>Sub-total</b>		<b><u>86,705</u></b>	<b><u>17,869</u></b>
<b>b) On – Call Deposits Account</b>			
Cooperative Bank	O1150035349811	30,000	-
National Bank	O1400061389303	<u>94,524</u>	-
<b>Sub-total</b>		<b><u>124,524</u></b>	<b><u>-</u></b>
<b>c) Fixed Deposits Account</b>			
National Industrial Credit	1000124326	162,671	-
Cooperative Bank	O1136030994600	249,112	273,189
Family Bank	O14000033336	87,721	261,689
Development Bank	3201180006	230,471	172,460
Equity Bank	O1330299214184	-	125,265
National Bank	O1345061389300	-	160,586
Sidian Bank	O1033020007800	-	7,177
Kenya Commercial Bank	O1132784905	-	<u>155,588</u>
<b>Sub-total</b>		<b><u>729,975</u></b>	<b><u>1,155,954</u></b>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

Safaricom -Mkahawa	552601	423	1,440
-Pay Bill	552600	4,087	2,637
-Cash on hand	-	=	<u>121</u>
<b>Sub-total</b>		<b><u>4,510</u></b>	<b><u>4,198</u></b>

**Grand Total** **945,714** **1,178,021**

**15. Receivables from exchange transactions**

	<b>2017/2018</b>	<b>2016/2017</b>
	<b><u>Kshs 000</u></b>	<b><u>Kshs 000</u></b>
(i) <b>Current receivables from investments</b>		
Interest receivable from Fixed Deposit and Bond	<u>8,613</u>	<u>14,084</u>
<b>Total current receivables</b>	<b><u>8,613</u></b>	<b><u>14,084</u></b>

**(ii) Interest on loans and Advances**

**2016/2017**

	<b>Sugar</b>	<b>Coffee</b>	<b>Total</b>
	<b><u>Kshs 000</u></b>	<b><u>Kshs 000</u></b>	<b><u>Kshs 000</u></b>
Gross Interest on loans and Advances	3,213,114	232,223	3,445,336
Restated Provisions as at 01.07.16	1,715,463	53,700	1,769,163
Provision charge for the year	659,720	105,267	764,987
<b>Total provisions as at 30.6.17</b>	<b><u>2,375,183</u></b>	<b><u>158,968</u></b>	<b><u>2,534,150</u></b>
<b>Net Interest on Loans and Advances as at 30.6.17</b>	<b><u>837,930</u></b>	<b><u>73,255</u></b>	<b><u>911,186</u></b>

**2017/2018**

	<b>Sugar</b>	<b>Coffee</b>	<b>Total</b>
	<b><u>Kshs 000</u></b>	<b><u>Kshs 000</u></b>	<b><u>Kshs 000</u></b>
Gross Interest on loans and Advances	3,574,326	303,918	3,791,950
Restated Provisions as at 01.07.17	2,375,183	158,968	2,534,151
Charge for the Year	39,506	5,021	44,527
Transfer of Prov For Interest Taken by AFA	(6,002)	0	(6,002)
Provision charge for the year	<u>33,504</u>	<u>5,021</u>	<u>38,525</u>
<b>Total provisions as at 30.6.18</b>	<b><u>2,408,688</u></b>	<b><u>163,990</u></b>	<b><u>2,572,678</u></b>
<b>Net Interest on Loans and Advances as at 30.6.18</b>	<b><u>1,165,638</u></b>	<b><u>139,928</u></b>	<b><u>1,305,566</u></b>

**(iii) Current receivables Loans and Advances**

**2017/2018**

**2016/2017**

**Kshs 000**

**Kshs 000**

**Restated**

Commodities Fund  
Annual Report and Financial Statements for the Year ended 30<sup>th</sup> June 2018

Loans and Advances from exchange transactions-Coffee Portfolio	205,483	402,190
Sugar Portfolio	624,000	403,615
	<b>829,483</b>	<b>805,805</b>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

<b>Total Current Receivables</b>	<b><u>2,143,662</u></b>	<b><u>1,731,075</u></b>
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**(iv) Loans and Advances from exchange transactions**

**2016/2017**

	<b>Sugar</b>	<b>Coffee</b>	<b>Total</b>
	<b><u>Kshs 000</u></b>	<b><u>Kshs 000</u></b>	<b><u>Kshs 000</u></b>
Gross Loans and Advances	14,779,009	1,069,964	15,848,973
Provisions beginning of the year 01.07.17	5,961,081	322,822	6,283,903
Provisions Charge in 2016/17	1,556,179	(43,775)	1,512,403
Additional due to a change in policy	<u>0</u>	<u>0</u>	<u>0</u>
Provision as at 30.6.17	<b><u>7,517,260</u></b>	<b><u>279,047</u></b>	<b><u>7,796,306</u></b>
<b>Net Loans and Advances as at 30.6.17</b>	<b><u>7,261,750</u></b>	<b><u>790,917</u></b>	<b><u>8,052,667</u></b>
Short term Portion	403,615	402,190	805,805
Long term Portion	<u>6,858,135</u>	<u>388,727</u>	<u>7,246,862</u>
	<b><u>7,261,750</u></b>	<b><u>790,917</u></b>	<b><u>8,052,667</u></b>

**2017/2018**

	<b>Sugar</b>	<b>Coffee</b>	<b>Total</b>
	<b><u>Kshs 000</u></b>	<b><u>Kshs 000</u></b>	<b><u>Kshs 000</u></b>
Gross Loans and Advances-Restated	15,712,416	919,352	15,966,862
Provisions as at 01.07.17	7,517,260	279,047	7,796,307
Charge For The Year	344,366	16,729	361,095
Transfer of Prov. for Loans taken by AFA	<u>(209,927)</u>	=	<u>(209,927)</u>
Provision charge for the year	<u>134,438</u>	<u>16,729</u>	<u>151,167</u>
Total provisions as at 30.6.18	<b><u>7,651,698</u></b>	<b><u>295,776</u></b>	<b><u>7,947,474</u></b>
<b>Net Loans and Advances as at 30.6.18</b>	<b><u>8,060,718</u></b>	<b><u>623,576</u></b>	<b><u>8,684,294</u></b>
Short term Portion	624,000	205,483	829,483
Long term Portion	<u>7,436,718</u>	<u>418,093</u>	<u>7,854,811</u>
<b>Net Loans and Advances as at 30.06.18</b>	<b><u>8,060,718</u></b>	<b><u>623,576</u></b>	<b><u>8,684,294</u></b>

Commodities Fund  
Annual Report and Financial Statements for the Year ended 30<sup>th</sup> June 2018

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

<b>16. Receivables from non-exchange contracts</b>	<b>2017/2018</b>	<b>2016/2017</b>
<b>Current receivables</b>	<b><u>Kshs 000</u></b>	<b><u>Kshs 000</u></b>
Funds held by Intermediaries	34,753	34,753
Prepayments	5,416	5,244
Staff debtors	1,768	1,036
Other Debtors -Ministry	40,000	40,000
	<b><u>81,937</u></b>	<b><u>81,033</u></b>
Less Provisions on Receivables from non-Exchange contracts	<u>34,753</u>	<u>34,753</u>
<b>Total current receivables</b>	<b><u>47,184</u></b>	<b><u>46,280</u></b>
<b>17 Inventories</b>	<b>2017/2018</b>	<b>2016/2017</b>
	<b><u>Kshs 000</u></b>	<b><u>Kshs 000</u></b>
Consumables stores	<u>640</u>	<u>756</u>
<b>Total inventories at lower of cost and net realizable value</b>	<b><u>640</u></b>	<b><u>756</u></b>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**18. Property, plant and equipment**

	Land	Buildings	Plant and Equipment	Automobiles	Computer and Electronic Equipments	Office and Communication Equipment	Furniture and Fittings	Work in Progress	TOTAL
Cost	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000
At 30 June 2016	0	0	0	50,660	55,828	2,793	26,115	-	135,396
Additions				5,160	3,137	654	998	18,674	28,624
Disposals									-
Transfers/adjustments									-
<b>At 30 June 2017</b>	-	-	-	<b>55,820</b>	<b>58,965</b>	<b>3,447</b>	<b>27,113</b>	<b>18,674</b>	<b>182,694</b>
Additions				11,993	11,984	2,860	2,275	-	29,112
Disposals				(5,004)	-	-	-	-	(5,004)
Transfer/adjustments					18,674			(18,674)	-
<b>At 30 June 2018</b>	-	-	-	<b>62,809</b>	<b>89,624</b>	<b>6,308</b>	<b>29,388</b>	-	<b>206,802</b>
<b>Depreciation and impairment</b>									
At 30 June 2016	-	-	-	(25,516)	(47,688)	(2,733)	(9,084)	-	(85,021)
Depreciation				(8,194)	(4,572)	(70)	(3,233)	-	(16,069)
Impairment									-
<b>At 30 June 2017</b>	-	-	-	<b>(33,710)</b>	<b>(52,260)</b>	<b>(2,803)</b>	<b>(12,317)</b>	-	<b>(101,091)</b>
Depreciation				(9,707)	(4,737)	(397)	(3,227)	-	(18,068)
Disposals				5,004	-	-	-	-	5,004
Impairment									-
Transfer/adjustment									-

Commodities Fund  
 Annual Report and Financial Statements for the Year ended 30<sup>th</sup> June 2018

At 30 June 2018	-	(38,413)	(56,997)	(3,200)	(15,544)	-	(114,155)
Net book values							
At 30 June 2018	-	24,395	32,627	3,108	13,843	-	73,973
At 30 June 2017	-	22,110	6,705	644	14,796	18,674	44,255

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

<b>19 .Investments</b>	<b>2017/2018</b>	<b>2016/2017</b>
<b>a) Investment in Treasury bills &amp; Bonds</b>	<b><u>Kshs 000</u></b>	<b><u>Kshs 000</u></b>
<b>Financial Institution</b>		
CBK-12 Year GOK Infrastructure Bond	76,500	76,500
<b>b) Investment in Staff Mortgage Scheme</b>		
Housing Finance Corporation -Mortgage Scheme	<u>60,900</u>	<u>-</u>
<b>Grand total</b>	<b><u>137,400</u></b>	<b><u>76,500</u></b>

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

	<b>2017/2018</b>	<b>2016/2017</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
Trade payables	3,277	8,954
Payment received in advance	9,219	8,293
Third party payable (AFA)	8,286	48,760
	=	=
<b>Total trade and other payables</b>	<b><u>20,782</u></b>	<b><u>66,007</u></b>

**21. Capital Reserves**

	<b>Sugar</b>	<b>Coffee</b>		
	<b>Revolving Fund Sugar</b>	<b>Revolving Fund Coffee</b>	<b>Revaluation Reserve</b>	<b>Total</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>	<b>Kshs '000</b>	<b>Kshs '000</b>
<b>Balance As At 30 .06. 2018</b>	<b><u>13,554,512</u></b>	<b><u>1,675,206</u></b>	<b><u>3,421</u></b>	<b><u>15,233,139</u></b>

**22. Revenue Reserve**

	<b>Kshs'000'</b>
<b>Balance As At 01.07. 2017</b>	<b>(4,060,997)</b>
Surplus for the period	10,462
<b>Revenue Reserve reported balance As At 30 .06. 2018</b>	<b><u>(4,050,535)</u></b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 22. Financial Risk Management

The Fund's activities expose it to a variety of financial risks. Risk management is carried out by the finance function under policies approved by the Board of Trustees. The Finance function identifies, evaluates and hedges against the financial risk.

#### (i) Credit Risk

Credit risk is the risk that a borrower will default on any type of debt by failing to make required payments. The risk is primarily that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs. The loss may be complete or partial and can arise in a number of circumstances. The Fund has no significant concentrations on credit risk. The Fund has policies in place to ensure loans are given to farmers with an appropriate credit history. The credit department assesses the credit quality of each farmer, taking into account their financial position, past credit experience and other factors.

The carrying amount of loans recorded in the financial statements that represents the Fund's maximum exposure to credit risk is as follows:

	<b>Total Amount Kshs 000</b>	<b>Fully Performing Kshs 000</b>	<b>Past Due Kshs 000</b>	<b>Impaired Kshs 000</b>
<b>As at 30.06. 2018</b>				
Receivables from exchange transactions	19,286,742	1,891,221	7,657,785	9,737,735
Receivables from non-exchange transactions	81,937	7,184	40,000	34,753
Bank balance	945,714	945,714	-	-
<b>Total</b>	<b>20,314,392</b>	<b>2,844,119</b>	<b>7,697,785</b>	<b>9,772,488</b>
<b>As at 30. 06. 2017</b>				
Receivables from exchange transactions	19,294,309	1,825,092	7,328,534	10,140,683
Receivables from non-exchange transactions	95,117	60,364	-	34,753
Bank balance	1,178,021	1,178,021	-	-
<b>Total</b>	<b>20,567,447</b>	<b>3,063,477</b>	<b>7,328,534</b>	<b>10,175,436</b>

#### (ii) Liquidity Risk Management

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the Fund's management. It is unusual for a lending institution's maturities and interest rates of assets and liabilities to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

Ability to replace, at an acceptable cost, interest-bearing liabilities, as they mature are important factors in assessing the liquidity of the Fund and its exposure to interest rates. The Fund does not maintain cash resources to meet all liabilities as they fall due as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant

	<b>Less than 1 month Kshs 000</b>	<b>Between 1-3 months Kshs 000</b>	<b>Over 5 month Kshs 000</b>	<b>Total Kshs 000</b>
<b>As At 30.06.2018</b>				
Trade Payables & Other Payables	3,277	9,219	51,286	63,782
Current portion of borrowings	-	-	-	-
Provisions	-	-	-	-
Deferred income	-	-	-	-
Employee benefit obligations	-	-	-	-
<b>Total</b>	<b>3,277</b>	<b>9,219</b>	<b>51,286</b>	<b>63,782</b>
<b>As At 30.06.2017</b>				
Trade Payables & Other Payables	8,954	8,293	48,760	66,007
Current portion of borrowings	-	-	-	-
Commissions payable	-	-	-	-
Deferred income	-	-	-	-
Employee benefit obligations	-	-	-	-
<b>Total</b>	<b>8,954</b>	<b>8,293</b>	<b>48,760</b>	<b>66,007</b>

**(iii) Market risk**

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an on-going 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 entity'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.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

The Fund's Audit 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 Fund's exposure to market risks or the manner in which it manages and measures the risk.

### a) Interest rate risk

Interest rate risk is the risk that the entity'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 deposits. 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 deposits.

#### *Management of interest rate risk*

To manage the interest rate risk, management has endeavored to bank with institutions that offer favorable interest rates.

#### *Capital Risk Management*

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

	<b>2017-2018</b>		<b>2016-2017</b>
	<b>Kshs 000</b>		<b>Kshs 000</b>
Revaluation reserve	3,421		3,421
Retained earnings	(4,050,535)		(4,060,997)
Capital reserve	15,229,718		14,333,992
<b>Total funds</b>	<b>11,182,604</b>		<b>10,276,416</b>
Total borrowings			-
Less: cash and bank balances	(945,714)		(1,178,021)
Net debt/(excess cash and cash equivalents)	1,637,166		9,098,395
<b>Gearing</b>	<b>100%</b>		<b>100%</b>

## 23. Related Party Balances

### (a) Nature of related party relationship

The Management regards a related party as a person or an authority with the ability to exert control individually, jointly or to exercise significant influence over the Management, or vice versa. Within the Fund, Directors and members of key management are viewed as related parties while outside the Fund Agriculture and Food Authority (AFA) was taken as related party.

Commodities Fund  
Annual Report and Financial Statements for the Year ended 30<sup>th</sup> June 2018

	<b>2018</b>	<b>2017</b>
	<b>Kshs 000</b>	<b>Kshs 000</b>
<b>Transactions with related Parties</b>		
<b>a)Sales to related Parties</b>		
Sales of goods	-	-
Sales of services	-	-
<b>Total</b>	-	-
<b>b)Grants from the Government</b>		
Grants from the National Govt	-	-
Grants from County Government	-	-
Donations in kind	-	-
<b>Total</b>	-	-
<b>c)Expenses incurred on behalf of related party</b>		
Payments of salaries and wages for AFA employees	1,720	2,600
Payments for goods and Services	-	-
<b>Total</b>	<b>1,720</b>	<b>2,600</b>
<b>d)Key Management Compensation</b>		
Directors' emoluments	20,068	5,156
Compensation to the CEO	5,503	4,002
Compensation to Key Management	18,842	13,616
<b>Total</b>	<b>44,413</b>	<b>22,774</b>

**b) Key management remuneration**

Transactions with related parties are summarised as follows:

The aggregate remuneration to directors and key management including allowances, salaries and benefits were as follows:

	<b>2017/2018</b>	<b>016/2017</b>
	<b><u>Kshs 000</u></b>	<b><u>Kshs 000</u></b>
Directors Emolument	20,068	5,156
Compensation to CEO	5,503	4,002
Key Management compensation	<u>18,842</u>	<u>13,616</u>
	<b><u>44,413</u></b>	<b><u>22,774</u></b>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

The above figures exclude remuneration amounting to Kshs 7.99M payable to three members of the key management disclosed on page (iv). Additional two staff not in the key management were remunerated by Agriculture and Food Authority (AFA) to a tune of Kshs 3.90M. The staff have since been absorbed in Commodities Fund and are being remunerated by the Fund.

**c) Due from related parties**

	<b>2017/2018</b>	<b>2016/2017</b>
	<b><u>Kshs 000</u></b>	<b><u>Kshs 000</u></b>
Due from Ministry of Agriculture, Livestock, Fisheries & Irrigation	<u>40,000</u>	<u>40,000</u>
	<b><u>40,000</u></b>	<b><u>40,000</u></b>

**24 Contingent Liabilities**

<b>Contingent liabilities</b>	<b>2017/2018</b>	<b>2016/2017</b>
	<b><u>Kshs 000</u></b>	<b><u>Kshs 000</u></b>
One court case against The Fund	<u>1,500</u>	<u>4,300</u>
<b>Total</b>	<b><u>1,500</u></b>	<b><u>4,300</u></b>

The Fund has **one (1)** litigation against it. The matter involves a spousal consent dispute on a property secured against a loan with the exposure estimated at around **Kenya shillings One million five hundred thousand (Kshs 1,500,000)**. However, management is of opinion it will win the case hence no need for provisions in the financial statements.

**25. Material Uncertainty**

The Fund has in the last three years accumulated deficit of Kshs.4,050,535,000 occasioned by huge provisions for non-performing loans. Provisions of Kshs. Kshs.3,995,199,000 were charged in the financial statements in the last three years. Majority of the non-performing loans are in sugar sector more so government owned millers and out grower institutions. The sugar loan portfolio was grossly under provisioned when it was handover to Commodities Fund which necessitated enhancement of provisions to cover non-performing loans. The issue of non-performing debts will be

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

addressed by privatization of government owned sugar millers a function not under control of the Fund.

**26. Capital Commitments**

<b>Capital commitments</b>	<b>2017/2018</b>	<b>2016/2017</b>
	<b><u>Kshs</u></b>	<b><u>Kshs</u></b>
	<b><u>000</u></b>	<b><u>000</u></b>
Authorised for	-	-
Authorised and contracted for	<u>-</u>	<u>8,569</u>
<b>Total</b>	<b><u>0</u></b>	<b><u>8,569</u></b>

At the end of the year The Fund did not commit any funds.

**27. Events after the reporting period**

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

**28. Ultimate and Holding Entity**

Commodities Fund is a State Corporation under the Ministry of Agriculture, Livestock, Fisheries and Irrigation. Its ultimate parent is the Government of Kenya.

**29. Currency**

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

**XVI. 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.

<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 (Name and designation)</b>	<b>Status: (Resolved / Not Resolved)</b>	<b>Timeframe: (Put a date when you expect the issue to be resolved)</b>
<b>Transfer of Assets and Liabilities from defunct Sugar Development Fund</b>	Commodities Fund was constituted by merging the Sugar Development Fund and Coffee Development Fund after enactment of Crops Act No.13 of 2013. The Initial investments of Commodities Fund were expected to be inherited and derived from the two defunct funds. However, it has been observed that ,while an amount of Kshs.1,178,153,000 was contributed by the defunct, Coffee Development Fund, an amount of Kshs.4,052,300,000 that was to be contributed by the Sugar Development Fund was instead taken over by the sugar Directorate under Agriculture and Food Authority(AFA). Whereas the assets of the former Coffee Development Fund were automatically taken over by the new formed Commodities Fund, the same did not happen with the assets and liabilities held by the former Sugar Development Fund. There exists no official hand over report or any record to show how the assets and liabilities of the Sugar Development Fund were shared between Agriculture and Food Authority (AFA) and Commodities Fund. Consequently the Completeness and accuracy of the total net assets and liabilities of Kshs.10,276,416,000 of the Fund as reflected in the	It is true that Commodities Fund was constituted by merging the Sugar Development Fund and Coffee Development Fund on operationalization of Crops Act, 2013 on 1 <sup>st</sup> August 2014. The merger process was guided by the Interim Management Committee (IMC) that was appointed by the then Cabinet Secretary in charge of Ministry of Agriculture, Livestock and Fisheries to oversee operationalization of both AFA and Crops Acts, 2013. At that point, the Fund was a directorate within AFA and operated under directive of IMC and Director General AFA. Whereas the assets and liabilities of the defunct Coffee Development Fund as at 1 <sup>st</sup> August, 2014 were wholly inherited by Commodities Fund, those of	Board of Trustee, Managing Trustee	Hand over report finalized and the matter resolved.	

Commodities Fund  
Annual Report and Financial Statements for the Year ended 30<sup>th</sup> June 2018

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
<b>Loans and Advances from Exchange Transactions</b>	statement of financial position as at 30 <sup>th</sup> June 2017 cannot be confirmed.	Sugar Development were shared between the two institutions: A technical committee is working on handover report to formalize the handover.			
	As previously reported, the statement of financial position as at 30 June 2017 reflects under non-current assets loans and advances totalling to Kshs.7,246,862,000, and as disclosed under Note 14(iv) to the financial statements. This balance is net of Kshs.7,796,306,000 in respect of provisions for non-performing loans advanced to various companies some of which are under receivership with accrued interest of Kshs.2,534,150,000. Although full provision has been made, on these long outstanding debts whose recovery remains doubtful, no evidence has been provided for verification showing the actions being taken to ensure recovery of the outstanding loans and accrued interest.	Write off Historical sugar debt was approved by parliament in 2014. Formal communication on this is still being awaited though the approval is on record in the Hansard. The Write off was meant to clean up the balance sheet of government owned millers in readiness for privatization. Management believes the planned write off will significantly reduce the problem of uncollectable debts.	BOT, MT and Credit Manager	Not resolved	June, 2019
	b) The loans and advances balance of Kshs.7,246,862,000 includes amount of Kshs.1,915,615,011 advanced to five sugar	Agriculture and Food Authority Management has provided Securities for loans during the hand over.		Hand over report finalized	June, 2019

## Commodities Fund

Annual Report and Financial Statements for the Year ended 30<sup>th</sup> June 2018

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	companies in 2014/15 including one under receivership. Although management explained that the loans were processed and disbursed by the Agriculture and Food Authority (AFA) Sugar Directorate, the management did not produce evidence of guarantors and loan security during the audit to confirm the loans are secure.		Director General AFA and Head of Sugar Directorate	and the matter is resolved	
	The loans and advances balance of Kshs.7,246,862,000 further includes Kshs.260,888,075 in respect of an outstanding loan due from West Kenya Sugar Company, which in turn includes Kshs.2,464,420 relating to legal fees in dispute. From the foregoing, the loans and advances from exchange transactions balance of Kshs.7,246,862,000 as at 30 <sup>th</sup> June, 2017 cannot be confirmed as fairly stated.	AFA and Commodities Fund have agreed that the disputed legal fee of Kshs.2,464,420 included in the loan be reversed from Commodities Fund books and be returned to AFA.	BOT,MT &FM	Resolved	December, 2018
<b>Receivables from Exchange Transactions</b>	a) The statement of financial position as at 30 June 2017 reflects under, current assets a net receivable from non- exchange transactions balance of Kshs.46,280,000. Despite the Fund having full provision for the long outstanding debts of Kshs.34,753,000, evidence of efforts made by the management of the Fund to recover, these long outstanding debts has not been provided for audit review.	a) It true the Fund was owed Kshs.34,753,000 as at 30 <sup>th</sup> June 2017 by four coffee intermediaries one of which collapsed. The loans were advanced in the formative days of the defunct Coffee Development Fund when loans were being disbursed through intermediaries. Three of the Intermediaries Michimikuru,Mugama and Nandi farmers saccos	MT, Credit Manager &Legal Manager	Not Resolved-but management is considering legal measures as well as seeking approval for writeoff.	June, 2018

Commodities Fund  
Annual Report and Financial Statements for the Year ended 30<sup>th</sup> June 2018

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>b) Further, disclosed under, note 15 to the financial statements is an amount of Kshs.40,000,000 in respect of other debtors-Ministry of Agriculture, Livestock and Fisheries requested the Fund's Management to remit this amount to support Chemelil and Coffee Sub Sector Implementation Committee. However, the terms of disbursement are not clear, and no supporting information has been provided for the same. Consequently, it has not been possible to ascertain whether the amount was a loan to Chemelil Sugar Company and or the Coffee Implementation Committee.</p> <p>Under the circumstances, the recoverability of the receivables from non-exchange transactions balance of Kshs.46,280,000 as at 30<sup>th</sup> June 2017 cannot be confirmed.</p>	<p>have since collapsed. And the Fund may consider seeking approval for write off.</p> <p>b) Management acknowledges the Fund is owed Kshs.40 million by the Ministry of Agriculture, livestock, Fisheries and Irrigation. The funds were requested on two different dates. The first tranche was meant to assist the Coffee Sub-Sector Task Force commence its work with a promise to refund the entire amounts when the National Treasury releases funds earmarked for task force. The second disbursement was meant to bail out Chemelil Sugar Company that at the time was in financial crises. The parent Ministry had promised to reimburse the funds to Commodities funds when it receives its allocation from the National Treasury. Although several</p>	<p>Managing Trustee/Finance Manager</p>	<p>Not resolved</p>	<p>June, 2019</p>

## Commodities Fund

Annual Report and Financial Statements for the Year ended 30<sup>th</sup> June 2018

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		demand letters have been written, the ministry remains non-committal.			
<b>Trade and Other payables from Exchange Transactions (Credits and Accruals)</b>	The statement of financial positions as at 30 <sup>th</sup> June 2017 reflects under current liabilities a balance of Kshs. 66,007,000 for trade and other payables from exchange transactions. As disclosed in note 19 to the financial statements, the balance further includes Kshs.48,760,000 for the third party payables, comprising of among others an amount of Kshs.43,000,000, which represents cash receipts from Sugar Companies for the repayment of loans said to have been advanced by Agriculture and Food Authority (AFA). The Crops Act, 2013 does not give the Agriculture and Food Authority the power to advance loans and, without details of the loan balances, it is not clear how the Fund would account for the Amount received from the Sugar Companies.	It is true that the Fund was holding Kshs.43,000,000 as at 30 <sup>th</sup> June 2017 being receipts from Sugar Companies in respect of loans advanced by Agriculture and Food Authority (AFA) in 2015/2016 and 2016/17. The loans have been adopted in Commodities Fund Book's pending and the Kshs.43million offset against the loans.	Board of Trustees and Managing Trustee	Resolved following finalization of hand over.	
Undisclosed Material Uncertainty	The statement of financial performance reflects a deficit of Kshs.1,801,041,000 for the year ended. The statement of financial position also reflects an accumulated deficit of Kshs.4,060,997,000 as at 30 <sup>th</sup> June 2017 (2016-accumulated deficit of Kshs.2,330,631,000).The operating deficit and the upward trend in accumulated deficit are indications of a material condition that may cast significant doubts on	<i>It is true the Fund has accumulated performance deficit to a tune of Kshs.4,060,997,000 as at 30<sup>th</sup> June 2017. The deficit was occasioned by huge provisions on non-performing loans charged from the defunct Sugar Development</i>	Board of Trustees and Managing Trustees	Not Resolved Privatization of Government Sugar Mills still stalled	December 2019

Commodities Fund  
Annual Report and Financial Statements for the Year ended 30<sup>th</sup> June 2018

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	Fund's ability to sustain its services. However, this material uncertainty has not been disclosed by the management in the statement of Trustees responsibilities or in the notes to the financial statements	<i>Fund. At the point of adoption, the loans provisions for non-performing loans were grossly understated a fact pointed by the auditors in 2014/15 audit. It was on basis of the above observation that provisioning policy was revised and a total of Kshs. 3,974,857,000 Charged as provisions in the last three years leading to the accumulated deficit reported in the financial statements.</i>			
<b>The Fund's Board of Trustees</b>	<p>The Crops Act No.13 of 2013, which created the Fund, did not spell out clearly the mandate of the Fund's Board of Trustees as well as its powers and responsibilities. Consequently, the Fund's Board of Trustees ability to work independently and effectively in absence of clear laws on its mandate, powers and responsibilities is doubtful.</p> <p>ii) During the year under review, the Fund's Board of Trustees operated without a substantive chairman contrary to section 6(4) of the State Corporations Act, Cap 446 of laws of Kenya. This omission apparently impacted negatively on governance of the Fund.</p>	<p><i>While it is true that the specific mandate of the Board wasn't spelt out in the Act, The void was clearly filled through the Mwongozo Code of Conduct shared by the State Corporations unit. The Code of Conduct has spelt out the roles and mandates of Boards including the Conduct of meetings and the composition in the absence of specific qualified personnel. Further, the Lack of an appointed Chairman is cured in the same Mwongozo which allows for sessional chair selection during each sitting of the Board. The Fund has already,</i></p>	Managing Trustee and Legal Manager	Resolved	June 2018

Commodities Fund  
 Annual Report and Financial Statements for the Year ended 30<sup>th</sup> June 2018

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		drafted amendments to crops Act, 2013 to address this matters.			

**Nancy C. Cheruiyot**  
**Managing Trustee**

Date: 18.03.19.....

**XVII. Appendix 1: PROJECTS IMPLEMENTED BY THE FUND**  
**Projects**

Projects implemented and funded by the Fund

Project title	Project Number	Donor	Period/duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
1	1	N/A	1 Year	N/A	N/A	N/A
2	2	N/A	1 Year	N/A	N/A	N/A

**Status of Projects completion**

*(Summarise the status of project completion at the end of each quarter, ie total costs incurred, stage which the project is etc)*

	Project	Total project Cost Kshs '000'	Total expended to date Kshs '000'	Completion % to date	Budget Kshs '000'	Actual Kshs '000'	Sources of funds
1	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2							

**XVIII. Appendix 11: INTER-ENTITY TRANSFERS**

	FY 17/18	Bank Statement Date	Amount(Kshs)	Indicate the FY to which the amounts relate
a	Recurrent Grants	N/A	N/A	N/A
b	Development Grants	N/A	N/A	N/A
c	Direct Payments	N/A	N/A	N/A
d	Donor Receipts	N/A	N/A	N/A