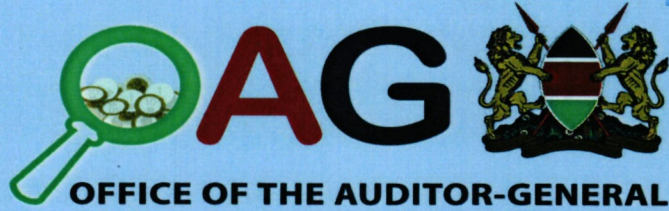


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OF	Mzee Mwalu

THE AUDITOR-GENERAL

ON

COMMODITIES FUND

**FOR THE YEAR ENDED
30 JUNE, 2021**

**STATE DEPARTMENT FOR CROP
DEVELOPMENT**



Commodities Fund

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2021

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

Commodities Fund
Annual Report and Financial Statements for the Year ended 30th June 2021

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I. KEY FUND INFORMATION AND MANAGEMENT

(a) Background information

The Commodities Fund (ComFund) is an agency under the Ministry of Agriculture, Livestock and Fisheries. It was established under section 9(2) of the Crops Act of 2013(Amended in May 2016) and operationalized on 1st August 2014. It is the successor of the Coffee Development Fund and the Sugar Development Fund. ComFund is domiciled in Kenya and has seven regional offices spread located in Meru, Embu, Nyeri, Nakuru, Kericho, Kisumu and Eldoret.

During the period under review, the affairs of the ComFund were run by the Board of Trustees. The Crops Act 2013, Section 9(3) states that the ComFund 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 ComFund. 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 ComFund 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 mission of the ComFund is to provide affordable and accessible credit for development of crops sub-sector.

Arising from the mandate, the objectives of the ComFund are:

- Mobilize resources from the government and development partners for onward lending to farmers.
- Develop loan products for scheduled crops as per Crops Act, 2013.
- Provide credit and Advances for all scheduled crops and subsequently collect repayments arising from disbursed credit facilities.
- Facilitate capacity building of farmers.
- Facilitate price stabilization for scheduled crops.

(c) Key Management

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

- i) The Board of Trustees comprising of three committees namely; Finance, Human Resources 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 30th June 2021 and who had direct fiduciary responsibility were:

Commodities Fund

Annual Report and Financial Statements for the Year ended 30th June 2021

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 ComFund has developed key fiduciary oversight arrangements in all areas of operations which include:

i) Finance and Audit Activities

The ComFund 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 ComFund who are appointed and authorized by the Board. Internal controls in place do not allow an officer of the ComFund to initiate and complete transaction his/her own. The internal audit department of the ComFund reviews operational and financial activities of ComFund independently and reports directly to the Audit Committee of the Board. The ComFund is on annual basis audited by the Auditor General who reports his findings to the National Assembly.

ii) Credit Administration

The ComFund 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 Kshs.5million while approvals for loans exceeding Management limit are escalated to the Credit Committee of the Board.

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 ComFund during the quarterly meetings

(f) ComFund Headquarters

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

Commodities Fund
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(g) ComFund Contacts

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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) ComFund 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

2. BOARD MEMBERS

Insert each Director's passport-size photo and name, and key profession/academic qualifications	Provide a concise description of each Director's date of birth, key qualifications and work experience
<p>1. Hon. Samson Mwanicha Okioma</p> 	<p>Hon. Okioma was appointed Chairman of the Board of Trustees on 14th December, 2018 and was born on 15th August 1951. He holds a MSc. Agric. (Pl. Path) and B.Sc. (Hons) - Botany & Biochemistry from University of Nairobi. He is finalizing his PhD from Egerton University – Thesis: Distribution, Characterization and Control of Mycotoxins (Aflatoxins) of Maize in Kenya. As a member of Pan African Parliamentarians, he had special training on climate change in Algiers, Algeria.</p> <p>He has wealth of experience in agriculture including agricultural scientific research in sugarcane agronomy and horticulture. He served as Assistant Agricultural Manager at Muhoroni Sugar Company and as Agricultural Manager at Pan Vegetable Processors in Naivasha.</p> <p>He was a Member of Parliament (MP) for Kitutu Masaba Constituency from 2002 to 2007 and was Kenya Member of Parliament, Pan African Parliament, Midrand, Johannesburg, South Africa from 2004 to 2007. As an MP, he was a member of the Committee of Agriculture, Livestock and Co-operatives of Parliament and was a member of the Agriculture, Livestock and Environment Committee of the Pan African Parliament.</p> <p>He previously served in the Board of Kenya Institute for Public Policy Research and Analysis (KIPPRA).</p> <p>He has also authored several books intended to alleviate poverty among the youth and women in Kenya.</p>

2. Hon. Daniel Karaba
Dickson, CBS



Hon Karaba, was appointed Trustee of Commodities Fund effective 7th November 2019. He was born on 20th December 1948 and holds a Bachelor of Arts (Ed.) degree from University of Nairobi.

He is a politician and a professional teacher.

He served as Senator of Kirinyaga County in 2013 for a period of 5 years and as a one term Member of Parliament for Kirinyaga County in 2003. Hon Karaba served as a Chairman of Education Committee in the 9th Parliament and held the same role in the 11th Parliament as the Chairman of the Senate Education Committee. He was also a member of Parliamentary Liaison Committee in the 9th Parliament.

He taught in many secondary schools and was promoted to a deputy principal and later a principal of various schools in Kenya including, Kagumo High School, Highway Secondary School, Kianyaga High School, Kirimara High School and Njegas Secondary School.

Hon. Karaba was director of Nyayo Tea Zone from 2007 to 2013. He was Chairman of Sports Association in Kirinyaga County and Chairman of Kirinyaga District Head Teachers Association among other roles.

3. Mr. Robert Mugambi
Murithi



Robert M. Murithi was re-appointed Trustee of Commodities Fund effective 7th November 2019. He was born on 20th 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.

He has 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.

4. Eng. Kipkoros Kandie



Eng. Kipkoros Kandie was appointed to the Board of Trustees on 7th November 2019 as an Independent Trustee. He was born on 26th April 1971. Kandie holds a M.Sc. in Sanitary Engineering from UNESCO – IHE, Delft, The Netherlands (2003) and a B.Sc. in Civil Engineering from The University of Nairobi (1994). He is currently pursuing Ph.D studies in Engineering at The University of Nairobi, where he also is a Lecturer. Kandie is a Member of both Engineers Board of Kenya and The Institute of Engineers of Kenya.

Eng. Kandie has a wealth of experience in Water Supply, Sanitation and Infrastructure programmes. These cover widely Teaching, Research, Students’ Supervision, Infrastructure Projects Consulting, Supervision and Implementation. He has over 25 years’ experience in several Private, Governmental, Regional, Multi-Disciplinary, Multi-Sector Projects covering Conceptualization, Inception, Feasibility Studies, Designs, Documentation, and Supervision.

Kandie is involved in Leadership and Governance formations in Schools and Community. He has previously served as an Executive Member of Universities Academic Staff Union (UASU) dealing with welfare issues of members. He also serves as an Expert in The Kenya Bureau of Standards Water and Sanitation Standards Committee. Eng. Kandie left the Board in December 2020.

<p>5. Mr. Eliud Mathu Kamau</p> 	<p>Mr. Eliud M. Kamau was appointed the Alternate Director) of Commodities Fund (ComFund) to represent the Principal Secretary (PS) with effect from 3rd May, 2017.</p> <p>He was born on 27th 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 for Crops Development). Mr. Mathu left the Board in December 2020.</p>
<p>6. Ms. Alice Kwamboka Nyariki</p> 	<p>Ms Alice Nyariki was appointed as a member of the Board of Trustees as representative of the National Treasury on 4th October 2019. She holds a Bachelor of Arts Degree in Sociology and an MSC in Risk Management.</p> <p>She is currently a Senior Deputy Director of Pensions. She has extensive Knowledge in Public Pension Policies, Planning and budgeting.</p>
<p>7. Ms. Doreen Kanana Mutua</p> 	<p>Ms. Doreen Kanana Mutua was born on 1st January, 1990 and appointed to the Board of Trustees on 30th April, 2020 as an Independent Trustee. Doreen holds B. Com (Finance) and MBA (Finance) from Meru University of Science and Technology. She is a Chartered Public Accountant.</p> <p>Ms. Mutua is currently the Managing Director of Boxcar Global Limited.</p> <p>While working as CEO of Donaris Investments she helped grow the SME business from a turnover of Kshs 500,000/- to turnover of around Kshs 20 Million.</p> <p>At Meru County Assembly, she pioneered the establishment of a community based group known as Friends of Obosani Self-help group (2016) in a view to empower the members through loaning facility and housing. The group now owns various properties and is able to loan each member Kshs 500,000/- at a low interest rate of 10%.</p>

8. Dr. Julius Kipyegon Kones



Hon. Dr. Julius Kipyegon Kones was appointed Trustee of Commodities Fund (ComFund) with effective from 5th January 2021. He was born on 21st April 1972 and he is a holder of BSc and Masters (Moi University) and PhD (Netherlands Institute of Ecology) in Statistics. He is a member of Institute of Directors (Kenya) - Member No. 0668.

Hon. Dr. Kones is the CEO and Consultant of East Africa Dataline Consult Ltd. Prior to appointment as Trustee of ComFund, he was Chairman of the Board of Directors of Lake Victoria North Water Works Development Agency. He also served as Chairman of the Board of Directors of National Water Conservation & Pipeline Corporation from February 2014 to February, 2019.

Among other notable experiences, Hon. Dr. Kones was Member of Parliament (MP) for Konoin Constituency from 2008 to January 2013. He also served as a Lecturer of Mathematics and Stastics at University of Nairobi, School of Mathematics from 2001 to 2007.

As an MP he held the following Parliamentary responsibilities:

- a) Vice Chairman, Public Accounts Committee.
- b) Member, Committee on Delegated Legislation and the Budget and Appropriations Committee,
- c) Chairman, Kenya-Japan Parliamentary Friendship Association,
- d) Member, Parliamentary Caucus on Millennium Development Goals (MDGS),
- e) Member, Parliamentary Network on World Bank and IMF,
- f) Member, Africa Parliamentary Network Against Corruption (APNAC).

Hon. Dr Kones has published works in refereed journals.

He participates in social engagements and has won various awards including award of a Certificate of Commitment by the Federation of Women Lawyers (FIDA-Kenya) to champion the attainment of Gender Equality in Kenya legislation by championing gender responsive Constitution, Bills and Budgets.

8. Mr. John Irungu Njoroge



Mr. John Irungu Njoroge was appointed the Alternate Director (Alternate Board Member) of Commodities Fund (ComFund) with effect from 16th November 2020.

Mr. Njoroge, was born on 11th April, 1968. He is a holder of MA (Economics Policy Management, Makerere University), and B.Sc in Agricultural Economics Egerton University. He is a member of Kenya Society of Agricultural Professionals.

He has twenty seven (27) years' working experience in Ministry of Agriculture, Livestock, Fisheries and Co-operative. He is currently working as Deputy Director of Agriculture, Head: Agribusiness and Value Addition Division.




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i) Board Committees



Name of the Committee	Members
Finance, Staff & General Purpose Committee	<ol style="list-style-type: none"> 1. Hon. Daniel Karaba Dickson, CBS - Chair 2. Mr. Robert Mugambi Murithi - Member 3. Mr. Eliud Mathu Kamau – <i>Left the Board in December 2020</i> 4. Mr. John Irungu Njoroge – Member from 16th November 2020
Credit and Business Development Committee	<ol style="list-style-type: none"> 1. Mr. Robert Mugambi Murithi – Chair 2. Hon. Daniel Karaba Dickson, CBS – Member 3. Ms. Doreen Kanana Mutua- Member 4. Mr. Eliud Mathu Kamau – <i>Left the Board in December 2020</i> 5. Eng. Kipkoros Richard Kandie – <i>Left in December 2020</i> 6. Mr. John Irungu Njoroge – 16th November 2020 7. Dr. Julius Kipyegon Kones - Member from 5th January 2021
Audit, Risk and Governance Committee.	<ol style="list-style-type: none"> 1. Eng. Kipkoros Richard Kandie M - Chair 2. Ms. Alice Kwamboka Nyariki – Member 3. Mr. Eliud Mathu Kamau- <i>Left in December 2020</i> 4. Mr. John Irungu Njoroge – 16th November 2020 5. Dr. Julius Kipyegon Kones – Member from 5th January 2021

3. MANAGEMENT TEAM

The ComFund’s day-to-day management is under the following key organs:

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

<p>4. Mr. Silas Nyaga</p> 	<ul style="list-style-type: none"> • Area of Responsibility: Finance and Accounting. • Academic Qualification: MBA- Finance. • Bachelor of Commerce in Accounting. • Professional Qualification: CPA (K), CPS.
<p>5. Ms. Rose Nderitu</p> 	<ul style="list-style-type: none"> • Area of Responsibility: Human Resources & Administration. • Academic Qualification: Bachelor of Education (Arts), Higher Diploma HR (KNEC)/IHRM Certified Public Secretary-CPS (K), MBA (Human Resources) - KU Project ongoing, Certificate in Insurance Proficiency. • Professional Membership: Member of Institute Human Resources Management.
<p>6. Mr. Edwin Okiah</p> 	<ul style="list-style-type: none"> • Area of Responsibility: Internal Audit. • Academic: Bachelor of Commerce - Finance. MSC-Project Management. • Professional Qualification: CPA (K), CFIP.
<p>7. Mr. Nesline Gechuki Okiko</p> 	<ul style="list-style-type: none"> • Area of Responsibility: Legal Services. • Academic Qualification: Bachelor of Law. • Professional Qualification: Diploma in Law.

<p>8. Mr. Tomno Kibichii</p> 	<ul style="list-style-type: none">• Area of Responsibility: Supply Chain.• Academic Qualification: Bachelor of Arts, MSC Procurement & Logistics (on-going).• Professional Qualification: MCSIPS.
<p>9. Mr James Singa</p> 	<ul style="list-style-type: none">• Area of responsibility: Corporate Communications• Qualifications: MA in Communication Studies (UoN); First Class Bachelor's degree in Communications/ Media Technology (Maseno University); Certificate (Distinction): Senior management Course (Kenya School of Government) ;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.

4. CHAIRMAN'S STATEMENT

1.0 Introduction

I am privileged to present this Annual Report and Financial Statement for the Commodities Fund for the year ending 30th June 2021. The financial period unlike any other has been unusual due to Covid-19. Despite this, the Commodities Fund continued fulfilling its mandate to finance the crops sector in Kenya, while adapting to operate in the new environment.

2.0 COVID -19 Pandemic

By the end of the financial year under review, the Covid-19 pandemic was globally in its second year. In Kenya, the first case was recorded in March, 2020. Thus by the end of the financial year, the country had been experiencing the pandemic for 15 months.

At the Commodities Fund, (Together with implementing Government's health guidelines), the management triggered the institution's Business Continuity Plan (BCP) on March 16th, 2020, as a risk mitigating factor. Despite the best health practices, during the financial year (June 2021-June 2021) the Fund experienced the pandemic first hand after four staff members were diagnosed with the virus. Swift measures were undertaken, thus containing further spread in the human resource. The said staff members recovered from the virus and were able to resume duties.

3.0 Economic performance

During the Financial year, Kenya's economy was adversely affected by the Coronavirus Disease (COVID-19) and the consequent containment measures, both domestically and internationally, reports the KNBS Economic Survey 2021. Real Gross Domestic Product (GDP) was estimated to have contracted by 0.3 per cent in 2020 compared to a revised growth of 5.0 per cent in 2019.

Also, according to World Bank's Kenyan Economy update (June 2021, Edition No. 23), as expected, under the strain of the Covid-19 pandemic, the economy slowed down, mirroring the global trend of economic downturn.

Nevertheless, the economy is expected to continue to recover and gradually return to the growth of above 5% (Quote: '*The real GDP growth is projected to reach 4.5 per cent in 2021 and to be over 5 per cent on average in 2022-23*' - World Bank's Kenyan Economy update (June 2021, Edition No. 23))

It is my expectation that as the economy continues to recover, so will be the ability of Fund's loanees to repay the advanced facilities, while the potential business for new loanees will continue improving.

3.1 Coffee, sugar Subsectors

Despite the slowed performance, agriculture sector was among the few sectors that registered growth recording increase from 3.0 per cent recorded in 2019 to 5.4 per cent in 2020 (Economic Survey report, 2021). This was attributed to favourable weather conditions, access to farming outputs and deliberate intervention by the government to categorize agriculture as an essential service, hence necessitating continuation of operations, even as other sectors slowed down

However, while tea subsectors grew by 24.1% in production and sugar cane deliveries increased 4.4 million tonnes in 2019 to 6.0 million tonnes in 2020, coffee production declined from 45,000 tonnes in 2018/19 to 36,900 tonnes in 2019/20. Multiple factors affected coffee production such as poor weather conditions in the coffee growing areas, inadequate application of farm inputs by smallholder farmers and the shift in land use from coffee farming to real estate (Economic Survey report 2021).

During the financial year, the government opted to reform the sugar sector by leasing the public owned sugar mills instead of privatizing them. Commodities Fund is hopeful that eventually, the long outstanding debts it owes the subsector through the public millers will be addressed and settled.

a. Strategic Plan (2018-2023)

The Fund undertook a mid-term performance review of its 2018-2023 Strategic Plan. Meanwhile, during the financial year, the ComFund continued to with the Plan's implementation, focussing on: Resource mobilization, Partnerships, prudent credit management, legal and regulatory framework, price stabilization, capacity building as well as operational efficiency.

4.0 Establishment of Coconut Portfolio

I am pleased to note that in line with the Strategic Plan's objective to expand operations to new agricultural subsectors, the Commodities Fund established a Coconut Revolving Fund, a new portfolio for the coconut subsector. This expands the portfolios to three, after Sugar and Coffee.

5.0 Agricultural regulatory and Policy framework

During the Financial year, the government moved to establish new regulatory framework for various agricultural commodities, including tea, sugar and Coffee. The Tea bill was enacted into an Act and operationalized, while the sugar and coffee bills were at various stages of enactment by the end of the financial year.

The Commodities Fund continues to actively engage with relevant stakeholders to prepare for adjustments with regard to its mandate and operations, once these policy and regulatory changes are operationalized

6.0 Corporate performance overview

Despite the Covid-19 pandemic, the Fund continued to fulfil its mandate. ComFund managed to disburse loans totalling to Kshs 321 million and collected loans amounting to Kshs 842 million. During the year a surplus of Kshs.851 million mainly driven by decline in loan provisions that declined by Kshs. 604 million. This is however a major achievement considering the Fund considering that the Fund has been incurring huge losses over time. We remain optimistic that we are on the right path of recovery and back to profitability.

7.0 The Board Composition

During the year under review, the Cabinet Secretary, Ministry of Agriculture, Livestock, Fisheries and Cooperatives Dr. Julius Kipyegon Kones as an independent member of the Board of Trustees, and Mr. John Njoroge as the Representative of the Principal Secretary, State Department for Crops Development and Agricultural Research.

The Board membership is as set out on page iv-ix

8.0 Challenges

The Fund continues to experience shortage of financial resources to enable it expand its services to more subsectors. I am hopeful that going forward the Government will avail more funds. At the same time, the ComFund will continue seeking strategic partnerships to supplement internal resources to grow its portfolios.

Commodities Fund

Annual Report and Financial Statements for the Year ended 30th June 2021

Notable in the year under review, delayed concurrences from the parent ministry hindered the achievement of the annual disbursement targets hence negatively affecting the portfolio growth. Whereas we were able to attract business, only 40% of the disbursement target of the year was achieved due long delays in receiving concurrence from the parent ministry.

Finally, the overall performance continues to be hindered by the legal gaps in the Crops Act 2013, key among them is the Fund's weak 'corporate' status as defined in law. In order to address this, working hand in hand with the parent ministry, the office of the Attorney general, the Council of Governors and other key stakeholders, the Fund has proposed legal redress through the proposed ComFund Bill.

9.0 Conclusion

I am very grateful for the support, advice and facilitation that my Board and the Commodities Fund received from the Cabinet Secretary (Ministry of Agriculture, Livestock, Fisheries and Cooperatives), the Principal Secretary (State Department for Crops Development and Agricultural Research), the Treasury and by extension the Government, especially by providing an enabling environment that has made it possible for the Fund to continue to carrying out its mandate.

I appreciate the support and goodwill from all our stakeholders. Lastly, I extend my gratitude to my fellow Trustees, the management and the members of staff for their dedicated efforts towards achieving the ComFund's vision: '*Wealthy Farmers in Kenya*'.

Signed


Chairman, Board of Trustees

5. REPORT OF THE MANAGING TRUSTEE

1.0 Introduction

Dear stakeholders, I have immense pleasure to present the financial performance of Commodities Fund for the year ended 30th June, 2021.

It is clear that Covid-19 pandemic will be with us for an extended period of time, if at all it will ever be contained. Thus, the onus is on us all to adapt to this new operating environment, at individual and corporate level. At commodities Fund, we understood this at the earliest stage possible, and we undertook mitigating measures, including continued embrace of automating our service delivery.

Our greatest concern at this point remains the health and wellbeing of all our stakeholders, including the farming community. It cannot be over emphasized, the need to observe given health guidelines, as well other government directives, so that we all can bring this pandemic under control, and continue with our noble agricultural activities in an effort to revive our constrained economy.

Despite the challenges brought about by the pandemic as well as lack of corporate status, lack of lending capital for other scheduled crops and a few challenges in recovering some old non-performing loans inherited from two former Funds, the Commodities Fund was able to perform well in its Financial Year Strategic objectives, including disbursement and recovery of advanced credit facilities with support of its stakeholders, and with guidance from the Board of Trustees under the Leadership of its Chairman, Hon. Samsom Mwanacha Okioma,

2.0 Financial Performance

During the period under review, income increased to **Kshs. 498 million** from **Kshs.480 million** recorded in 2019/20. This 4% increase is attributed to improved loan recovery and financial support from the government where the Fund received a total of **Kshs 48 million** as recurrent grant.

In 2020/2021 the Fund recruited thirteen (13) additional staff which led to increase in operational cost of the ComFund before provisions to **Kshs. 255 million** compared to **Kshs.236 million** incurred in 2019/2020 representing an increase of 8.5% in cost.

During the year, the loan loss provision declined to **Kshs 594 million** compared to **Kshs 327 million** incurred in 2019/2020. The remarkable improvement was occasioned by improved loan repayment and incorporation of loan securities in computing loan provisions.

The Fund ended the year 2021 with an impressive surplus totalling to **Kshs 836 million** that was attributed to decline in loan provision and government grant.

The total assets of the Fund increased to **Kshs 3,289 million** from **Kshs 2,306 million** reported previously. This increase was as a result of growth in loan portfolio and cash held by the Fund.

3.0 Credit Portfolio

The ComFund's loan portfolio comprised of coffee and sugar loan products that supported production, processing and value addition of the two crops. According to annual report by AFA Coffee Directorate, the overall production for 2020/21 coffee season increased marginally to 40,000 MT clean coffee from 36,873 metric tonnes realized in 2019/20 season. This was attributed to improved weather conditions experienced in later part of 2020.

According to the Year Book of Sugar Statistics 2020, The sugar industry registered significant increase in both cane milled and sugar made in the calendar year 2020 compared to the previous year. The quantity of cane milled increased by 49% from 4,604,712 tonnes in 2019 to 6,880,203 tonnes in 2020, whereas sugar made increased by 52% from 378,117 tonnes to 575,506 tonnes over the same period. Similarly, cane to sugar conversion ratio improved by 2% to 11.96 in this year from a TC/TS of 12.18 in 2019. The improved performance was attributed to favourable weather conditions that led to increased cane supply, numerous reforms being carried out in the sub-sector by the Government aimed at enhancing the competitiveness of the industry and adherence to maintenance schedules (both preventive and annual maintenance) by private millers. Commodities Fund is hopeful that once the ongoing reforms come to fruition the long outstanding historical debts owed by the subsector through the public millers will be addressed and settled.

Notwithstanding the challenges faced by the two subsectors, a total of **Kshs. 321,168,060** was disbursed comprising of **Kshs. 300,000,000** and **Kshs. 21,168,060** to sugar and coffee subsectors respectively. The funds were meant for Farm inputs, Crop Establishment, Processing and Purchase of Machinery geared towards increasing coffee and sugar productivity. During the same period the Comfund was able to recover loans amounting to **Kshs. 844,493,876.93** comprising of **Kshs. 452,182,989.62** and **Kshs. 392,310,887.31** for sugar and coffee subsectors respectively. The greatest challenge remains collection of the non performing historical loans the bulk of which is held by sugar sector and not secured by tangible securities but floating debentures. The Fund had sort debt write off for the non-performing loans from the National Treasury through our Parent Ministry. The request for write off is in line with Section 69 of the Public Finance Management Act 2012 and section 145 of the regulations.

4.0 Human Capital

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

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

5.0 Risk Management and Internal Controls

The Board of Trustees has overall responsibility for the establishment and oversight of the ComFund's risk management frameworks. The ComFund's Risk Management Policies are established to identify and analyse the risks faced by the ComFund, 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 ComFund identifies and manages risk through in-house risk review enhanced by internal and external audits. The ComFund 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 Commodities Fund’s ISO 9001:2015 certificate lapsed within the Financial Year. As a result, the process for recertification was initiated. By the end of the Financial Year, though it was not yet complete, it was an advanced stage. The scope of the Quality Management System under the recertification is expected to expand, given that the Commodities Fund has opened regional offices, which had not been factored in, in the earlier certification.

In addition, the funding portfolios have grown into three, after establishment of Coconut Fund. The lapsed certification had two portfolios: Coffee and Sugar.

It is expected that the recertification shall be concluded early in the next financial year, so that the Commodities Fund can demonstrate to all its stakeholders and partners the continued quality of its service delivery, guided by ISO 9001:2015 Quality Management System.

7.0 Corporate Social Responsibility

Corporate Social responsibility has become an integral part of undertaking organizational mandate. Recognizing that the Commodities Fund is a Responsible Corporate Citizen, the Fund’s Board established CSR policy to provide guidelines that will ensure that the CSR programmes are 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.

Signed 
.....
Managing Trustee

6. REVIEW OF COMMODITIES FUND PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FY 2020/2021

Section 81 Subsection 2 (f) of the Public Finance Management Act, 2012 requires the accounting officer to include in the financial statement, a statement of the national government entity’s performance against predetermined objectives.

Commodities Fund has seven (7) strategic pillars and objectives within its Strategic Plan for the FY 2018/2019- 2022/2023. These strategic pillars are as follows:

- Pillar 1: Resource Mobilization**
- Pillar 2: Credit Management**
- Pillar 3: Legal and Regulatory Framework**
- Pillar 4: Price Stabilization**
- Pillar 5: Capacity Building and Partnerships**
- Pillar 6: Operational Excellence**
- Pillar 7: Organizational Capacity.**

Commodities Fund develops its annual work plans based on the above seven pillars. Assessment of the Board’s performance against its annual work plan is done on a quarterly basis. The *Fund* achieved its performance targets set for the FY 2020/2021 period for its seven strategic pillars, as indicated in the diagram below:

Strategic Pillar	Objective	Key Performance Indicators	Activities	Achievements
Resource Mobilization	To mobilize Kshs 1.25 billion by 2023 to finance scheduled crops	Funds mobilized	i) Prepare funding proposals aligned to the Big Four Agenda (cotton, pyrethrum, coffee, sugar) ii) Undertake mapping of development partners and hold development partner engagement forum iv) Develop funding/ technical support proposals to identified partners	i) The Fund sought funding from the National Government through preparation of funding concept notes through its Parent Ministry to be utilized for development of crops (coconut, miraa) in the MTEF (2021/22 to and 2023/24). The Fund was allocated by GoK Kshs 100 Million for coconut subsector in FY 2020/21 and so far Kshs 50 Million was received. Also the Fund was allocated by GoK Kshs 30 Million for recurrent expenditure in FY 2020/21 and so far Kshs 30 Million has been received. ii) The Fund identified African Rural and Agricultural Credit Association (AFRACA) and Kakamega County as its strategic development partners. iii) A terms of reference for technical support proposal was developed and forwarded to AFRACA for consideration; and the Fund executed MOU and Credit Agency Agreement with Kakamega County.

Commodities Fund

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2. Credit Management	To reduce the loan turnaround time (from 2 months to 3 weeks for repeat and 3 months to 1 month for new customers)	Reduced turnaround time	<p>i) Communicate loan application window calendar to farmers</p> <p>ii) Review credit management module</p> <p>iii) Collaborate with stakeholders to gather farmers' data e.g Sacco, Millers etc</p> <p>iv) Develop a farmers' database</p> <p>v) Implement SLAs</p>	<p>i) Regional offices communicated to coffee and sugar clients on loan application windows.</p> <p>ii) The system process mapping was finalized and the system developers are onsite with the users for implementation.</p> <p>iii) Fund is collaborating with Commissioner of Co-operatives and SASRA to provide details on financial health of loan applicants.</p> <p>iv) Coffee farmers' database was developed and is being updated as and when additional information is received.</p> <p>v) Implementation of the Service Level Agreements is being undertaken within departmental functions.</p>
	To grow the loan portfolio from Kshs 7.8 billion in 2018 to Kshs 19.1 billion by 2023	Increased loan uptake	<p>i) Develop/review products for each value chain</p> <p>ii) Implement the expansion plan</p>	The outstanding loan portfolio for coffee and sugar was Kshs 0.44 billion and Kshs 1.12 Billion respectively as at end of FY 2020/21. *The growth of the Fund's loan portfolio is low due to inadequacy in financial resources for finance all the scheduled crops.
	To reduce NPLs from 70% in 2018 to 20% by 2023	Reduced PAR	<p>i) Develop NPLs restructuring policy and classify loanees as per the NPLs restructuring policy</p> <p>ii) Establish Debt Recovery Unit</p>	The PAR for coffee and sugar loan portfolios were 83% and 26% respectively in FY 2020/21. The target was 25% and 35% for the coffee and sugar portfolio in the period under review. *The target was made with the assumption that the historical loans would be write off.
3. Legal and Regulatory Framework	To have a supportive legal framework	Revised crops Act	Follow up with the Ministry on enactment of the amendments	The Fund met legal stakeholders and developed a comprehensive bill to aid the Fund gain corporate status and have stand-alone regulations. The draft was presented to management and the Board of Trustees for review.
4. Price Stabilization	To facilitate the reduction of commodities' price volatility	No of contracts entered into	<p>i) Link up with providers of agricultural markets information</p> <p>ii) Share market price information on USSD platform, and Fund website and publications</p>	The Fund is a member of KCTA (Kenya Coffee Traders Association) and will conclude the partnership engagement to facilitate collaboration on data sharing on coffee sales made by co-operative societies and loan follow-up on loans secured by tripartite agreement in FY 2021/22.

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5. Capacity Building and Partnerships	To build borrowers capacity in Financial Management, Crop husbandry and Governance	Increased farm productivity and loan repayment	i)Develop capacity building programs in consultation with stakeholders ii)Organize calendar for training programmes	The Fund developed and undertook capacity-building programs six (6) counties as follows; Embu, Nyamira, Kisii, Baringo, Kakamega and Muranga. In addition the Fund conducted sensitization forums in Kilifi and Kwale Counties for the coconut sub sector.
6.Operational Excellence	To reduce the operational cost to revenue ratio from 117% in 2018 to 88% by 2023	Increased efficiency	i)Automate revised business processes Train staff and customers on use of ICT systems ii)Sensitize customers and implement the service charter iii)Develop departmental annual work plans and budgets iv)Align work plans with budget allocation v)Management of outsourced services	i) The service provider collected the user requirements and implementation of the processes is ongoing. ii) Continuous training of staff on web based modules such as loan appraisals and approval process is ongoing for all the staff. iii) Sensitization of the customer service charter was done during the farmers' field days and Integrated Coffee Productivity Project (ICPP) forums. iv) Departmental annual work plans and budgets for 2021/22 were developed in December 2020. v) Security and Courier services are already outsourced at the Head Office.
7. Organizational Capacity	To attract and retain skilled, motivated and productive staff	Increased productivity	i)Undertake competitive recruitment to fill identified position ii)Develop training plan iii)Undertake training as per training plan	i) Approved jobs (13 positions) recruitment was advertised in June 2020, interviews conducted in August 2020 and they reported in November 2020. ii) Training Plan for 2020/21 was prepared and implemented in the year. iii) The Fund trained twenty six (26) staff who are members of professional bodies for CPD and other trainings required for PC implementation.
	To enhance good corporate governance practices	Competent and compliant board	i)Undertake corporate governance training for Board and senior management ii)Implement Mwongozo guidelines	i) The majority of the Board of Trustees have been trained. The new members were yet to be trained due to Covid 19 restrictions. ii) Mwongozo Being implemented. Board committees properly constituted and quarterly virtual Board meetings scheduled.

7. The Fund's performance contract deliverables for FY 2020/2021 were drawn from the strategic plan and cascaded to the departmental and divisional heads for implementation at the department and divisional levels. The progress reports are submitted to the Board of Trustees on a quarterly and annual basis.

7. CORPORATE GOVERNANCE STATEMENT

Corporate governance defines the process and structure used to direct and manage the business affairs of Commodities Fund with the aim of enhancing corporate accounting and stakeholders long term value. The Board of Trustees is responsible for the governance of the Fund and is committed to ensuring that its business operations are conducted with integrity and in compliance with the law, internationally accepted principles and best practices of corporate governance and business ethics. To this end the Fund has put in place, Board and Committee charters, processes, systems, practices and procedures which are frequently reviewed and updated embracing the changing corporate environment and world trends.

BUSINESS ETHICS

The Commodities Fund conducts its business in compliance with high ethical standards of business practice. In this respect, transactions with its customers, intermediaries, insiders, employees and other stakeholders are conducted at arm's length, with integrity and transparency. The business is conducted with high levels of transparency and accountability.

BOARD OF TRUSTEES

The names of the Trustees who served during the year are set out on pages iv to ix. The Board fulfils its fiduciary responsibility to the Government and other stakeholders by maintaining control over the strategic, financial, operational and compliance issues of the Fund. Whilst the Board provides direction and guidance on strategic and general policy matters and remains responsible for establishing and maintaining overall internal controls over financial, operational and compliance issues, it has delegated authority to the Managing Trustee to conduct the day-to-day business of the Fund.

The Board of Trustees consists of five independent members (including the Chairman) , two government representatives representing the National Treasury and the Ministry of Agriculture, livestock, fisheries and Cooperatives and the Managing Trustee who is the secretary to the Board. Trustee members possess extensive experience in a variety of disciplines in business and financial management, all of which are applied in the overall management of the Fund. The Board meets at least once every three months and has a formal schedule of matters reserved for it.

a) Trustees' Emoluments

The remuneration of Trustees is subject to the guidelines issued Salaries Remuneration Commission and the Office of the President on terms and conditions of service for State Corporations. The Trustees are not eligible for membership of the pension scheme operated for the staff.

The following tables shows remunerative allowances to the Trustees in respect of scheduled meetings, trainings and conferences for the year ended 30th June 2021. The aggregate of expenditures including none-allowances expenditures is shown on note 11 to the financial statements.

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No	Trustee Name	Category of the Trustee	Gross Payment (Kshs)	Honararia (Kshs)	Allowances (Kshs)	Total
1	Hon. Samson Mwanicha Okioma	Chairman – Independent		960	4,675	5,635
2	Hon. Daniel Karaba Dickson, CBS	Independent			2,091	2,091
3	Mr. Robert Mugambi Murithi	Independent			1,562	1,562
4	Mr. Eliud Mathu Kamau	Rep- PS, Ministry of Agriculture, Livestock, fisheries & Cooperatives			907	907
6	Ms. Doreen Kanana Mutua	Independent			1,887	1,887
7	Eng. Kipkoros Richard Kandie	Independent			837	837
8	Mr. John Irungu Njoroge	Rep- PS, Ministry of Agriculture, Livestock, fisheries & Cooperatives			444	444
9	Hon. Dr. Julius Kipyegon Kones	Independent			791	791
10	Alice Nyariki Kwamboka	Rep- PS, The National Treasury			1,310	1,310
						15,464

b) Related Party Transactions

There have been no related party transactions, pecuniary transactions or relationships between the Fund and its Trustees or Management except those disclosed under note 25(b) to the financial statements.

c) The Board has set up working committees to assist in discharging its duties and responsibilities as follows:

The committee is mandated to review and make:

CREDIT AND BUSINESS DEVELOPMENT COMMITTEE

The committee is mandated to review and make recommendations on the Fund's credit policies, oversight of the overall lending policy of the Fund and deliberate and consider loan applications beyond

the credit discretion limits set for management. The committee also reviews and considers all issues that may materially impact the present and future quality of the Fund's credit risk management function as well as the quality of the loan portfolio and ensure adequate bad debt provisioners are maintained in line with the internal guidelines of the Fund. The committee also reviews, approves and monitors the management's compliance with applicable Fund policies and other relevant statutes.

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FINANCE, HUMAN RESOURCES AND GENERAL PURPOSES COMMITTEE

The committee is mandated to review and make recommendations on the Fund's financial and accounting policies, review and make recommendations on the Fund's Annual Budget, review and make recommendations on financial reports of the Fund. Further, the committee reviews the performance of the Fund as well as that of the Managing Trustee and considers all issues that may materially impact liquidity of the Fund.

The committee is also mandated to formulate staff policies and procedures and ensure an adequately staffed and professionally managed human resource. The committee assists the Board in discharging its corporate governance role by reviewing staffing needs of the Fund, appoints senior management staff, reviews training needs and undertake disciplinary measures as per the staff policies.

AUDIT COMMITTEE

The Committee is mandated to raise the standards of corporate governance by reviewing the quality and effectiveness of the internal control systems, the internal and external audit functions and the quality of financial reporting. In addition to advising the Board on best practice, the committee also monitors management's compliance with relevant legislation, regulations and guidelines as well as the Bank's laid down policies and procedures. The committee is responsible for overseeing the implementation of the Fund's risk management framework to ensure that all existing and potential significant risks are identified and effectively managed. The committee considers both internal and external sources of information regarding risks to keep abreast with new developments and their potential impact to the business. The committee receives periodic reports from the internal audit function relating to the Fund's identified risks.

BOARD MEETING ATTENDANCE

During the year under review, the Board held main board and working committee meetings.

The Board members attendance for 2020-2021 is as follows:

No	Trustee Name	Full & Special Board Meetings			Credit & Business Development Committee			Finance, Human Resource & General Purpose Committee			Audit, Risk Committee & Governance Committee		
		Meetings Required to Attend	Meeting Attended	%	Meeting Required to Attend	Meetings Attended	%	Meeting Required to Attend	Meeting Attended	%	Meeting Required to Attend	Meeting Attended	%
1	Hon. Samson Mwanicha Okioma	11	11	100									
2	Hon. Daniel Karaba Dickson	11	11	100	9	8	89	6	6	100			
3	Mr. Robert Mugambi Murithi	11	11	100	9	9	100	6	6	100			
4	Mr. Eliud Mathu Kamau	8	8	100	4	4	100	3	3	100	2	2	100

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6	Ms. Doreen Kanana Mutua	11	11	100	9	9	100				4	3	75
7	Eng. Kipkoros Richard Kandie	8	6	75	4	4	100				2	2	100
8	Mr. John Irungu Njoroge	3	3	100	4	3	75	2	2	100			
9	Dr. Julius Kipyegon Kones	3	3	100	4	4	100				2	2	100
10	Mrs. Nancy C. Cheruiyot	11	11	100	9	9	100	6	6	100	4	4	100
11	Alice Nyariki Kwambicka	11	11	100				6	6	100	4	4	100

TRUSTEES APPOINTMENT AND SUCCESSION PLANNING

The Commodities Fund Trustees are appointed by the Cabinet Secretary In-charge of the Ministry of Agriculture, Livestock, Fisheries and Cooperatives as required by Crops Act, 2013, (Section 9) and amended in 2016. Appointment of trustees is staggered to ensure continuity of the Board. Members of the Board are removed from office by gazette notice from the same appointing authority. The Managing Trustee is formally appointed by the Cabinet Secretary In-charge of the Ministry of Agriculture, Livestock, Fisheries and Cooperatives upon recommendation by the Board of Trustees.

BOARD INDUCTION AND TRAINING

New Trustees to the Fund are inducted to office by existing Trustees and the Management and thereafter trained in corporate governance. Further, all Trustees are trained in areas that enhance their performance in the committee and the Board.

BOARD PERFORMANCE EVALUATION

The Chairman conducts evaluations of the performance of the Board, individual Trustees and Board Committees annually. In addition, the Board and its Committees undertake an annual evaluation of their performance and report their findings and any resulting recommendations to the Board. The Board also undertakes an evaluation of the performance of the Chairman. The Board discusses the results of its evaluations and uses the process to constructively improve its effectiveness.

COMPLIANCE

The Board provides oversight to ensure that management adheres to all applicable laws, regulations, governance codes, policies, procedures and systems to monitor and control compliance across the bank. Additionally, the Fund prepares its financial statements in accordance with International Public Sector Accounting Standards (IPSAS) and the Public Finance Management Act, 2012.



Hon. Samson Okioma-Chairman Board of Trustees

Date.....31/01/2022.....

8. MANAGEMENT DISCUSSIONS AND ANALYSIS

1.0 Highlights of Operational and Financial Performance:

Figures rounded in Ksh '000'

The ComFund is mandated to provide sustainable, affordable and accessible credit and advances to farmers for value chain development of scheduled crops.

The ComFund is currently financing coffee, sugar and coconut sectors that have established a combined capital fund of **Kshs. 16,940,058**. The coffee and coconut capital fund was grant from government while the Sugar Fund was built up from sugar levy previously collected by former Kenya Sugar Board.

Summarized Statement of Financial Position

Details	2019	2020	2021
	Ksh'000'	Ksh'000'	Ksh'000'
Gross Loans	16,239,299	16,503,648	16,103,966
Provisions on Non- Performing Loans	15,473,166	15,574,055	14,732,422
Net Loans	766,133	929,593	1,371,544
Gross Interest Accrued on Loans	4,181,607	4,434,216	4,777,619
Provision on Interest	4,160,558	4,418,775	4,667,240
Net Interest on Loans	21,049	15,441	110,380
Other Assets	1,568,793	1,335,647	1,782,739
Property plant and Equipment	32,061	26,199	24,836
Total Assets	2,388,036	2,306,880	3,289,499
Total Liabilities	26,606	24,391	63,825
Net assets	2,361,431	2,282,489	3,225,672
Capital Reserves	15,233,139	15,233,139	15,264,852
Revenue Reserves	-12,871,708	-12,950,599	-12,039,181
Total Net Reserves	2,361,431	2,282,540	3,225,672
Summarize Performance Statement			
Income from Credit Activities	433,844	385,097	365,303
Provision charges on loans & Interest	9,113,574	327,092	-593,118
Net income/(Deficit) from Credit Activities	-8,679,729	68,894	958,421
Income from Non-Credit Activities	116,025	95,488	89,870
GoK Grant			48,289
Operating Surplus (Deficit)	-8,563,704	154,072	1,091,634
Operating Expenses	258,714	235,753	255,151
Net Surplus (Deficit)	-8,822,419	-81,681	836,483

The gross loan portfolio as at June 30th June, 2021 stood at **Kshs. 16,103,966**. The portfolio is made up of loan products that support production, processing and value addition.

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Cumulative book provision for the principal and interest were **Kshs. 14,732,422** and **Kshs. 4,667,240** respectively. The resultant net loans and interest are **Kshs.1,371,544** and **Kshs.110,380** for principal and Interest respectively. This is an increase of **Kshs. 441,951** representing a growth of 48% from previous year figure of **Kshs. 929,593**. As a matter of prudence, adequate provisions are needed to take care of the debts that may never be collected. Cumulative book provision on loans and interest stood **Kshs. 19,399,662** as at 30th June 2021. The provision has reduced the loan asset to **Kshs. 1,371,544** compared to **Kshs.929,593** reported in 2019/2020.

During the year, the ComFund disbursed loans amounting to **Kshs. 321million** to borrowers within coffee and sugar subsectors. The disbursements were broken into **Kshs. 21million** and **Kshs. 300 million** for coffee and sugar sectors respectively. This was 45% drop from **Kshs. 584 million** disbursed in 2019/2020.

The sugar sector which holds 93% of ComFund's loan portfolio continues to record very poor performance due to myriad challenges. All government owned sugar millers which holds majority of Commodities Fund loans operates below the installed capacity while others are not operational. 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 general poor performance of the industry has continued to adversely affect the performance of commodities fund as a whole. The planned leasing of government owned sugar mills that was expected to operationalize the mills seems to have stalled. It the indebtedness of the sector was to be addressed on the process of the leasing.

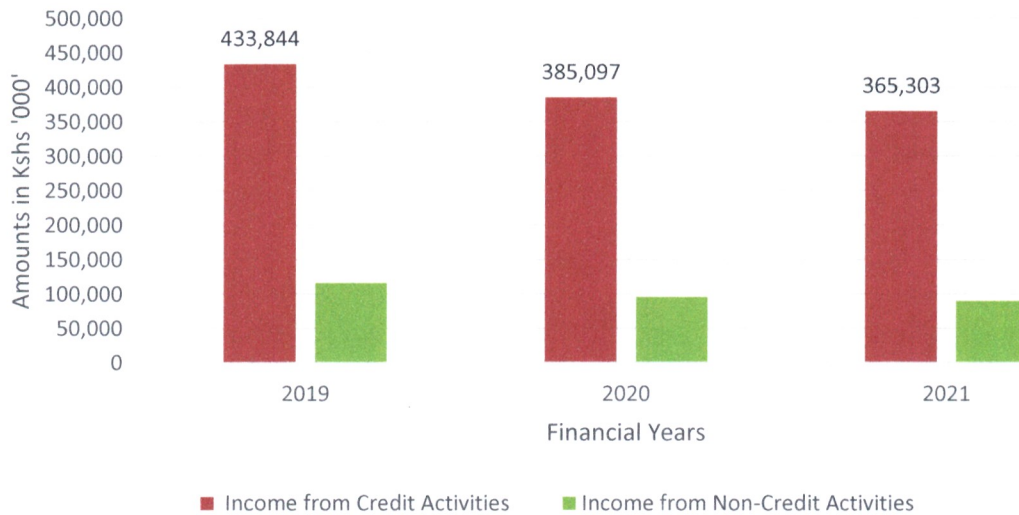
Coffee sector performed fairly well as was boosted by good coffee prices in the international market in during the year. Coffee Prices are projected to improve which gives prospects of improved loan repayment in 2021/2022.

Total assets of the ComFund which mainly consists of loans, cash and cash equivalent, office equipment and furniture and general debtors increased to **Kshs. 3,289,499** from **Kshs. 2,306,880** reported in June 2020 representing 43%. Major increase was reported in cash and cash equivalent and loans due to reduction in loan provision.

Revenues from core business of the ComFund recorded 6% decline from **Kshs. 385,097** in 2020 to **Kshs. 365,303** in 2021. The decline is attributable to interest freezing on Non-performing loans on both Coffee and Sugar portfolio and low disbursement occasioned by prolonged disbursement process that has discouraged uptake of loans. Repayment was further affected in the last quarter of the year by emergence Covid-19 which crippled many economic activities.

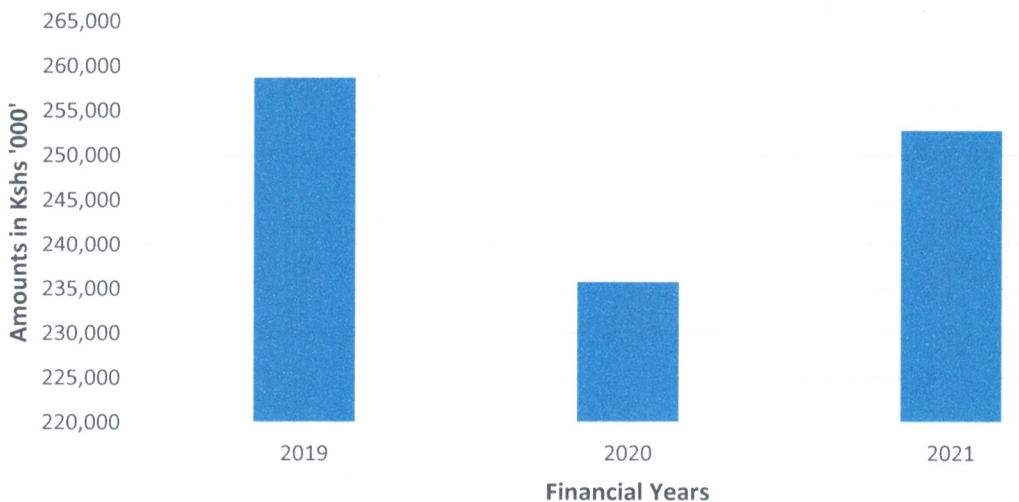
Revenues from non- credit activities decreased by 6% from **Kshs. 95,488** in 2020 to **Kshs. 89,870** in 2021. The decrease was occasioned by declining market interest rate on fixed deposits.

Income from Credit Activities Vs Income from Non-Credit activities



Operating expenses of the ComFund have increased by 8.2% to **Kshs. 255,151** in 2021 from **Kshs. 235,758** reported in 2020. High cost in 2021 was attributed by increase of number of staff and increase in cost of goods and services used by the Fund.

Operating Expenses



ComFund ended the year with a net surplus of **Kshs. 836,483** after provision for non-performing loans declined by **Kshs. 593,118** compared to **Kshs 327,092** charged last year. Consequently, the accumulated deficits reduced to **Kshs. 12,039,181** from **Kshs. 12,950,602** reported in June 2020.

In an effort to improve performance of its loan book, the Fund filled the staffing gaps which was existing in the regional offices by employing eleven staff in the core business of the credit. The regional offices will continue to promote ComFund’s products, appraise and recommend credit requests and monitor the loans. In order to discharge its mandate as stipulated in the Crops Act 2013, ComFund will continue to lobby for capital to supported unfunded scheduled crops.

In comparison to other financial service providers, the ComFund's interest rates of between 3% to 10% is lower than those of other players who are mainly commercial banks and Saccos. The ComFund 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 ComFund remains high creating future business opportunity for the ComFund. The greatest challenge faced by the ComFund is to secure reliable and stable Funding capital to lend to the envisaged farming fraternity.

3.0 Compliance with statutory requirements

The ComFund's Board of trustee is headed by a chairman, four (4) Independent Trustees appointed by the Cabinet Secretary Ministry of Agriculture, Livestock, Fisheries and Co-operatives, two (2) Representatives from the Parent Ministry and The National Treasury and Planning

Internally, ComFund is headed 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 department heads comprising of, the Credit Manager, the Finance Manager, Legal Manager and ICT 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 ComFund has three litigations and one of the three cases involves a spousal consent dispute on a property secured against a loan with the exposure estimated at around Kenya shillings Eighteen Million Nine Hundred Ninety Seven Eight Hundred Forty Six. (Kshs 18,997,846).

5.0 Key Projects investments decisions that the ComFund implemented

The ComFund had budgeted to invest a total of Kshs. 24,295 in various assets during the year. The budgeted assets include; Office equipment and furniture Kshs. (925 Motor vehicles (Kshs. 10,000 million, ICT Equipment and facilities Kshs. 3,370 and staff mortgage Kshs.10,000. All the above assets were financed from internally generated funds as approved through annual budget estimates.

All the budgeted assets were acquired during the year.

6.0 Major Risks Facing the ComFund

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. Major risks identified include:

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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.

Mitigating Liquidity/ funding risk

a) Prudent planning

The Management has set systems in place to meet all foreseeable funding commitments as they fall due and the Fund will not face difficulties meeting its current and future financial obligations or financial liabilities as they fall due.

b) Budgeting

The Fund enters into lending agreements subject to availability of funds. Investments in major assets is preceded by budget and purchased when the Fund has sufficient cash flows.

c) Financial Controls

The Fund has in place a system of internal controls with defined procedures, financial and operational controls to ensure resources are safeguarded; transactions authorized, validated and reported in line with International Financial Reporting Standards.

d) Audits and Financial Reports

The Fund has established Boards Audit committee as well an internal audit office to ensure that its financial controls put in place are effective. In addition, as a public institution, the Fund is subject to public auditing by the office of Auditor general.

Periodically the Fund makes statutory reports to relevant offices, agencies and institutions, including the Board of Trustees, line ministry and the Treasury, as a financial control mechanism.

e) Stringent recovery of advanced credit

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

f) Lobbying for government Funding

Government of Kenya (GoK) was the source of capital funds currently used to finance the Coffee Sector. The funding of sugar sector is from the capital accumulated from Sugar levy abolished in July 2016.

Commodities Fund has not been receiving capital grants from government or any other source and risked running into liquidity risk. Beginning 2020/2021, the Fund will receive both recurrent and capital grants from government thus reducing liquidity risk. Further, the Fund

Commodities Fund

Annual Report and Financial Statements for the Year ended 30th June 2021

will also seek GoK authority to write off non-performing loans in sugar sector that will significantly reduce the existing capital fund.

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.

Mitigating credit risk

a) Credit policies

To this address this risk, the Fund has developed policies to ensure loans are granted to farmers with an appropriate credit history.

b) Loan Appraisal and evaluation

The credit department assesses the credit quality of each borrower, taking into account their financial position, past credit experience and other factors.

c) Debt collection

The Fund has engaged services of debt collectors to deal with some of the default cases.

d) Automating Risk management

Under the ERP credit module, the Fund has automated risk analysis as part of loan application and appraisal process, to identify threats that may lead to default and corresponding mitigation factors put in place to prevent such eventuality.

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 and be seen to comply with the requirement of granting affordable subsidized loans to farmers.

Mitigating interest risk:

a) Unique loan features

The Fund has developed its loan products incorporating unique features that attract customers regardless of the interest aspects.

b) Growing the portfolio

Even as the Fund operates as a service (revolving) Fund, it is engaging in strategies to grow its loan portfolio. If the portfolio were large enough, it would be possible to operate in below the market interest rates, in its effort to fulfil its mandate of availing easily affordable loan facilities to farmers.

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.

Operational risks may be further categorized as follows:

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

Mitigating Operational risks:

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 ComFund 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 ComFund does not have any serious governance issues and has systems in place to address all matters relating to running of the ComFund.

9. ENVIRONMENTAL AND SUSTAINABILITY REPORTING STATEMENT

Commodities Fund's vision is to create wealthy farmers in Kenya, an outward looking vision, that focuses on the impact of implementing the ComFund's mandate to finance the crops sector in Kenya. In this, the ComFund's focus is to deliver financial services to the farming community in a manner that brings about client satisfaction in an efficient and effective manner. This includes caring for the environment that we, as the Fund operate in and responding to client needs appropriately and in a sustainable manner. This is undertaken under the organizational policies and activities as outlined below:

i) Sustainability Strategy and profile

During the financial Year, the Commodities Fund operated under guidance of its strategic Plan 2013-2023 that was developed after wide consultation and scanning of the environment that the organization operates in. The outcome was a strategic plan that among other areas, took into consideration need to care for the environment and sustainability.

Based on this, during the financial year, despite the Covid-19 pandemic affecting the Fund's ability to fully implement some of the planned environmental activities, the ComFund was able to activities as indicated in (v) below.

ii) Environmental Performance

In desire to guide on how the Commodities Fund implements its environmental programmes, the Board of Trustees enacted Corporate Social Responsibility policy. Based on this policy, the Fund identified need to support the farming communities through provision of free seedlings.

During the Financial year, the Fund distributed free coffee and coconut seedlings (See V below).

iii) Employee Welfare

The Fund has enacted relevant Human Resource Policies to guide any staffing needs, (taking into consideration principles as fairness, transparency and equity in the processes), skills gap identification and TNA, appraisal system, Reward and sanction systems, among other areas.

During the Financial year, the Fund managed employee's work place welfare through insurance covers that included medical, WIBA, among others. The Fund also manages a pension scheme as well as facilitating a welfare program for the benefit of the staff members.

In addition, the Fund undertook staff appraisals and training needs assessment to identify skills gaps and build capacity amongst the staff.

iv) Market Place Practices

a) Responsible Competition Practice

The Fund has in place anti-corruption policy where it derives work plan of activities, and develops quarterly reports to the Management/ Board and the relevant statutory bodies including EACC. The activities therein were part of the performance Contracting targets for the financial year, whereby the Fund, upon performance evaluation, was rated 'very good'

In addition, The Fund has in place an HR manual that guides on, among other areas, the conduct of its staff (including political and ethical) during and outside the work environment, with the expectation of neutral and ethical service delivery. As demanded by the policy, every staff member signs code of conduct upon entering in contractual obligation with the Fund.

Commodities Fund

Annual Report and Financial Statements for the Year ended 30th June 2021

During the financial year, all the new staff members who joined the Fund signed the said Code.

b) Responsible supply chain and supplier relations

During the Financial year, the Fund continued to demand disclosure from its service providers to adhere to acceptable ethics by signing relevant commitment forms during the registration of suppliers.

Due to the Covid-19 Pandemic, the Fund could not hold planned supplier sensitization meetings, where the Fund, in promotion of transparency and relations, informs the suppliers of the existing opportunities at the Fund and how to access them. The Fund intends to hold such supplier meetings in future.

c) Responsible marketing and Advertisement

Commodities Fund has in place a communication policy manual that guides on the applicable standards to be maintained when undertaking marketing and other media engagements. All advertisements and publicity engagements during the financial year were subject to these communication policy guidelines.

d) Product Stewardship

The Fund has continued to create awareness to the stakeholders on the available channels of feedback, customer inquiry or customer complaints with regard to its services or products, when they arise. During the financial year, the Fund received and successfully resolved all customer complaints recorded with regard to services offered.

v) Corporate Social Responsibility/ Community Engagements

During the financial year, within the framework of its CSR policy, the Commodities Fund identified and implemented programmes on two areas: Purchase and distribution of Coffee Seedlings and Coconut seedlings.

These two activities were also undertaken as part of fulfilment of its environmental sustainability obligations of increasing the forest cover within the farming communities.

On Coffee seedlings programme, the Fund not only purchased and distributed 32,500 to farmers in the counties of Baringo, Kisii, Nyamira, Embu, Kakamega, but also provided farmer capacity building under the auspices of Integrated Coffee Productivity Project (ICPP).

10. REPORT OF THE TRUSTEES

The Board of trustees submit their report together with the audited financial statements for the year ended ending 30th June 2021 which shows the Commodities Fund affairs.

i) Principal activities

The principal purpose of the ComFund 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.

ii) Results

The results of the ComFund for the year ended 30th June, 2021 are set out on page 1.

iii) Trustees

The Trustees who served for the year ended 30th June 2021 are shown on pages iv- ix. During the year two trustees retired from the Board in November and replacement was done in December 2020 and January 2021.

iv) Surplus remission

In accordance with Regulation 219 (2) of the Public Financial Management (National Government) Regulations, regulatory entities shall remit into consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year. Commodities Fund made surplus of Kshs.851,208,000 and FY2020 Kshs. (81,681,000) but has not remitted surplus to the consolidated Fund due to operational deficit brought forward from past years.

vi) Auditors

The Auditor General is responsible for the statutory audit of the ComFund 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: ...31/01/2022.....

11. 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 ComFund, which give a true and fair view of the state of affairs of the *ComFund* at the end of the financial year/period and the operating results of the *ComFund* for that year. The Trustees are also required to ensure that the *ComFund* 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*.

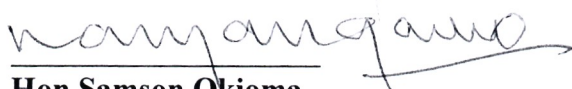
The Trustees are responsible for the preparation and presentation of the financial statements, which give a true and fair view of the state of affairs of the *ComFund* for and as at the end of the financial year ended June 30, 2021. This responsibility includes: (i) maintaining adequate financial management 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 *ComFund*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the *ComFund'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 *ComFund's* financial statements give a true and fair view of the state of *ComFund's* transactions during the financial year ended June 30, 2021, and of the *ComFund's* financial position as at that date. The Trustees further confirm the completeness of the accounting records maintained for the *ComFund*, which have been relied upon in the preparation of the *ComFund's* financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Trustees to indicate that the *ComFund* 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 *ComFund's* financial statements were approved by the Board of Trustees on 30th September, 2021 and signed on its behalf by:



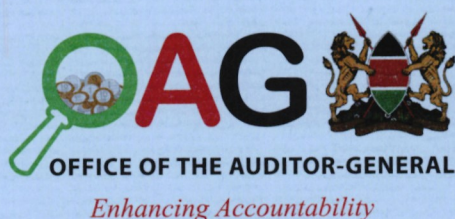
Hon Samson Okioma
Chairman
Board of Trustees



Nancy C. Cheruiyot
Managing Trustee

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON COMMODITIES FUND FOR THE YEAR ENDED 30 JUNE, 2021-STATE DEPARTMENT FOR CROP DEVELOPMENT

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the Commodities Fund set out on pages 1 to 55, which comprise the statement of financial position at 30 June, 2021,

Report of the Auditor-General on Commodities Fund for the year ended 30 June, 2021 - State Department for Crop Development

the statement of financial performance, statement of changes in net assets, statement of cash flows, 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 effect of the matters 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, 2021, 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 Crops Act, 2013 (Amended, 2016) and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unsupported Prior Year Adjustment

The statement of changes in net assets reflects a Revenue Reserve net balance of Kshs.12,039,180,000 that includes prior year adjustments to the revenue reserves of Kshs.74,939,000 dating back to financial year 2016/2017 that could not be traced in the prior year operations. Although the Management explained that the prior year adjustments arose after a reconciliation of the loans and perfection of the Credit Management System, the reconciliation figures were not supported by the loan statements.

Consequently, the accuracy, completeness and presentation and disclosure of the revenue reserves balance of Kshs.15,264,852,000 as at 30 June, 2021 could not be confirmed.

2. High Rate of Provisioning on Loans and Advances

As disclosed under Note 17(iv) to the financial statements, the gross loans and advances reflected in the financial statements amounted to Kshs.16,103,966,000 with a total provision of Kshs.14,732,422,000 which translate to 91% of the loans and advances to farmers. Management has not given the basis for the huge provision for the loans. Further, the Fund disbursed approximately Kshs.321,168,000 for sugar and coffee portfolios during the year under review, despite the high percentage of the portfolio risk.

Consequently, the validity, accuracy and full recoverability of the long-term receivables from exchange transactions - loans and advances totalling to Kshs.754,905,000 could not be confirmed.

3. Unsupported Loans and Advances Balance

The statement of financial position reflects a balance of Kshs.754,905,000 under long-term receivables from exchange transactions - loans and advances as disclosed in Note

17(iv) to the financial statements. However, the amount was not supported by any verifiable document or records.

In the circumstances, the accuracy and completeness of the long-term receivables from exchange transactions - loans and advances of Kshs.754,905,000 as at 30 June, 2021 could not be confirmed.

4. Unrecovered Fund Transferred to the Parent Ministry

The statement of financial position reflects receivables from non-exchange transactions of Kshs.46,410,000 and as disclosed in Note 18 to the financial statements. Included in the balance is an amount of Kshs.40,000,000 advanced to the Parent Ministry to offer financial assistance to Chemilil Sugar Company to enhance its sugar production that has remained outstanding since 2017. The Ministry was to reimburse these funds once The National Treasury released its budgeted funds for the year. However, the Ministry failed to reimburse the funds to the Fund. It is not clear if the disbursement was approved by The National Treasury. Further, a scrutiny of the corresponding letter to the Managing Trustee revealed that the Principal Secretary did not sign the advance request.

Consequently, the accuracy and validity of Kshs.40,000,000 advanced to the Parent Ministry to offer financial assistance to Chemilil Sugar Company could not be confirmed.

5. Unsupported Trade and Other Payables

As disclosed in Note 23 to the financial statements, the statement of financial position reflects trade and other payables from exchange transactions (creditors and accruals) of Kshs.63,825,000 which includes trade payables balance of Kshs.9,608,000. However, the trade payables includes unsupported balance amounting to Kshs.5,765,258.

Further, the general ledger of trade and other payables include a journal voucher entry for Kshs.2,997,214 dated 1 July, 2020 which is not explained nor supported.

Consequently, the accuracy, completeness, and validity of the trade and other payables from exchange transactions balance of Kshs.63,825,000 could not be confirmed.

6. Unconfirmed Expenditure on Remuneration of Trustees

As disclosed in Note 11 to the financial statements, the statement of financial performance reflects an expenditure on remuneration of trustees of Kshs.18,949,000. The expenditure includes an amount of Kshs.9,756,563 that was paid to three (3) members of the Board of Trustees. However, their letters of appointment were not provided for audit review.

Consequently, legality of the appointment of the three directors and the validity of the expenditure amounting to Kshs.9,756,563 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Commodities Fund Management in

accordance with ISSAI 130 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.

Other Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.815,370,000 and Kshs.498,517,000 respectively, resulting to an under-funding of Kshs.316,853,000 or 38% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.293,892,000 and Kshs.255,152,000 respectively, resulting to an under-expenditure of Kshs.38,740,000 or 13% of the budget.

Further, the statement of financial performance reflects remuneration of trustees of Kshs.18,949,000 and as disclosed in Note 11 to the financial statements which includes sitting allowance totalling Kshs.7,860,000. However, the approved budget for sitting allowance was Kshs.4,800,000 resulting in an overpayment of Kshs.3,060,000 or 63%. Although the Management explained that the board members were required to attend forums organized by the Ministry on all coffee growing regions to sensitize coffee stakeholders on Coffee Bill, 2020 leading to the more meetings than had been anticipated, there was no evidence to show that the over expenditure was authorized.

Based on the approved estimates, under-funding and under-expenditure affected the planned activities and may have impacted negatively on service delivery to the public while the validity of the expenditure on remuneration of trustees of Kshs.18,949,000 could not be confirmed.

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 Conclusion on Lawfulness and Effectiveness in Use of Public Resources section 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

1. Single Sourcing of Security Services and Fuel Products

The statement of financial performance reflects expenditure on use of goods and services of Kshs.98,805,000 as disclosed in Note 9 to the financial statements. The balance

includes security and vehicle running expenses of Kshs.1,130,000 and Kshs.7,207,000 respectively. Analysis of the supporting documents for these expenses revealed that during the year under review, a security firm was awarded a contract effective from 1 September, 2020 with an expiry date of 31 August, 2021. The security firm was single sourced without justification contrary to the requirements of Section 103 of the Public Procurement and Asset Disposal Act, 2015 on direct procurement. It was also noted that, for the first two months of the financial year under audit, the procuring entity paid the security firm an amount of Kshs.157,516 against a lapsed contract.

Further, the Fund single sourced oil, fuel and lubricants from a fuel company contrary to the requirements of Section 103 of the Public Procurement and Asset Disposal Act, 2015 on direct procurement. In addition, no documentary evidence was provided for audit to confirm that a contract agreement was signed between the procuring entity and the fuel company.

Under the circumstances, the regularity and value for money for the above expenditure totalling Kshs.8,337,000 on security and vehicle running expenses could not be confirmed.

2. Non-Compliance with the One Third of Basic Salary Rule

During the year ended 30 June, 2021, some employees earned a net salary of less than a third (1/3) of the basic salary for all the twelve months of the financial year contrary to Section C.1(3) of the Public Service Commission (PSC) Human Resource Policies, 2016. The Management has not given an explanation for failure to comply with the policy.

In the circumstance, the Fund Management contravened Section C.1(3) of the Public Service Commission (PSC) Human Resource Policies, 2016 as this may expose the staff to pecuniary embarrassment.

3. Un-Approved Remuneration Structure

As disclosed under Note 10 to the financial statements, the statement of financial performance reflects employees' costs amounting to Kshs.111,010,000 which includes salaries and wages, housing benefits and allowances, pensions contributions and medical aids. However, as previously reported, the salary structure and scale on payment of employees' salaries and allowances used by the Fund was not approved by the Salaries and Remuneration Commission contrary to Article 230(4) (b) of the Constitution which provides that the powers and functions of the Salaries and Remuneration Commission shall be to advise the National and County Governments on the remuneration and benefits of all other public officers.

Consequently, the Management is in breach of the law.

4. Non-Compliance with Law on Ethnic Composition

As reflected under Note 10 to the financial statements, the statement of financial performance reflects employee costs amounting to Kshs.111,010,000. The amount

comprises of salaries and wages, housing benefits and allowances, pensions contributions and medical aids. However, during the year under review, 34% of the employees were from the same ethnic community. This is contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that all public offices shall seek to represent the diversity of the people of Kenya in employment of staff and that no public institution shall have more than one third of its staff establishment from the same ethnic community.

Consequently, the Management is in breach of the law.

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, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether processes and systems of internal control, risk management and overall 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 the Board of Trustees

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 Fund's ability to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to abolish the Fund or to cease operations.

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.

The Board of Trustees are responsible for overseeing the Fund's financial reporting process, reviewing the effectiveness of how Management 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 Fund's 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 applicable 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 Fund's ability to continue 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 to sustain 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.


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL


Nairobi


22 March, 2022


Commodities Fund**Annual Report and Financial Statements for the Year ended 30th June 2021****13. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30TH JUNE 2021**

	NOTES	2020/21	Restated 2019/20
		<u>Kshs '000'</u>	<u>Kshs '000'</u>
Revenue			
Revenue from exchange transactions			
GoK Grant	6	48,289	0
Finance income - External investments	7	445,141	472,955
Other income	8	<u>5,087</u>	<u>7,757</u>
Total revenue		<u>498,517</u>	<u>480,712</u>
Expenses			
User of Good & Service	9	98,805	94,132
Employee cost	10	111,010	96,085
Remuneration of Trustees	11	18,949	17,738
Depreciation and amortization expense	12	16,253	17,114
Repairs and maintenance	13	8,135	10,685
Contracted Services	14	<u>2,000</u>	<u>0</u>
Total expenses		<u>255,151</u>	<u>235,754</u>
Other gains / (Losses)			
Gain on Sale of Assets	15		453
Loan Provisions	17	(593,118)	327,092
Surplus/(Deficit) for the period		<u>836,483</u>	<u>(81,681)</u>

The notes set out on pages 8 to 35 form an integral part of these Financial Statements


Managing Trustee
 Nancy C. Cheruiyot, FCCA


Finance Manager
 Silas N. Njagi
 ICPAK No.5078


Chairman, Board of Trustees
 Hon. Samson Okioma

Date: 31.01.2022

Date: 31.01.2022

Date: 31.01.2022


Commodities Fund


Annual Report and Financial Statements for the Year ended 30th June 2021

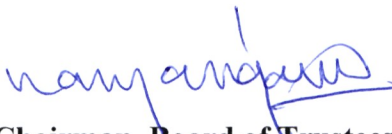
14. STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2021

	Notes	2020/2021 <u>Kshs '000'</u>	2019/2020 <u>Kshs '000'</u>
Assets			
Current assets			
Cash and cash equivalents	16	1,562,877	1,125,807
Receivables from exchange transactions-Interest		12,936	
Receivable on Investment	17(i)		12,753
Receivables from exchange transactions-Interest on Loans & Advances	17(ii)	110,380	15,442
		616,638	
Current portion of Long-term receivables from exchange transactions-Loans and advances	17(iii)		712,379
Receivables from non-exchange transactions	18	46,410	46,055
Inventory- Consumables	19	901	7,94
Total Current Assets		<u>2,350,142</u>	<u>1,913,229</u>
Non-current assets			
Property, plant and equipment	20	24,836	26,199
Intangible Assets- Software	21	28,249	29,623
Investments	22	131,365	120,615
Loan Term Receivables from Exchange Transaction -Loans and Advances	17(iv)	<u>754,905</u>	<u>217,264</u>
Total non-current assets		<u>939,355</u>	<u>393,702</u>
Total assets		<u>3,289,497</u>	<u>2,306,931</u>
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions (Creditors and accruals)	23	63,825	24,391
Total liabilities		<u>63,825</u>	<u>24,391</u>
Net assets		<u>3,225,672</u>	<u>2,282,540</u>
Reserves	24	15,264,852	15,233,139
Accumulated surplus	25	(12,039,180)	(12,950,599)
Total net assets and liabilities		<u>3,225,672</u>	<u>2,282,540</u>

The Financial statement set out on pages 1 to 35 were signed on behalf of the Board of Directors by:


Managing Trustee
 Nancy C. Cheruiyot, FCCA


Finance Manager
 Silas N. Njagi
 ICPAK No.5078


Chairman, Board of Trustees
 Hon. Samson Okioma

Date... 31/01/2022

Date... 31-01-2022

Date... 31/01/2022

15. STATEMENT OF CHANGES IN NET ASSETS AS AT 30 JUNE 2021

Notes	Revolving fund Sugar Ksh '000'	Revolving Fund Coffee Ksh '000'	Coconut Fund Ksh '000'	Revaluation Reserve Ksh '000'	Revenue Reserve Ksh '000'	Total Ksh '000'
Balance as at 30TH JUNE 2019	13,554,514	1,675,206	-	3,421	(12,871,706)	2,361,433
Adjustment of overstated amortization expense FY2017.18	-	-	-	-	2,790	2,790
Surplus for the period	-	-	-	-	(81,686)	(81,686)
Balance as at 30 JUNE 2020	13,554,514	1,675,206	-	3,421	(12,950,602)	2,282,537
Opening 1st July 2020	13,554,514	1,675,206	-	3,421	(12,950,602)	2,282,537
Coconut Grant	-	-	31,711	-	-	31,711
Prior Year Adjustment	-	-	-	-	74,939	74,939
Surplus for the year	-	-	-	-	836,483	836,483
Balance as at 30th June 2021	13,554,514	1,675,206	31,711	3,421	(12,039,180)	3,225,670



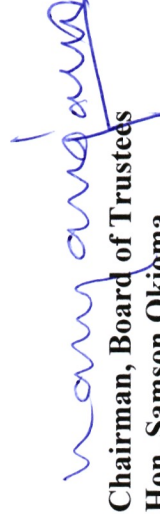
Managing Trustee
Nancy C. Cheruiyot, FCCA

Date: 31/01/2022



Finance Manager
Silas N. Njagi
ICPAK No.5078

Date: 31/01/2022



Chairman, Board of Trustees
Hon. Samson Okioma


Date: 31/01/2022

16. STATEMENT OF CASH FLOWS AS AT 30TH JUNE 2021


Cash generated from operations	Notes	2020/2021 <u>Ksh '000'</u>	2019/2020 <u>Ksh '000'</u>
Surplus/(Deficit) for the year before tax		836,483	(81,681)
Adjusted for:			
Depreciation		16,253	17,114
Non-cash adjustment to equity		(593,118)	327,092
Adjustment for interest on loans		74,939	2,790
Contributed assets			
Impairment			
Gains and losses on disposal of assets			(453)
Contribution to provisions		593,118	327,092
Contribution to impairment allowance			
Finance income-External investment- Non-Exchange Transactions		(89,871)	(95,488)
Finance cost			
Working capital adjustments:			
Increase in current & non-current receivables from exchange transaction - loans and Advances		(441,901)	(166,300)
Increase in current receivable from exchange and non -exchange transaction.		(95,477)	3,631
Decrease in deferred income			
Increase in trade and other payables from exchange transactions (Creditors & Accruals)		39,434	575
Increase in inventory- Consumables		(107)	291
Net cash flows from operating activities	26	<u>339,753</u>	<u>319,522</u>
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets	20	(13,516)	(8,927)
Proceeds from disposal of Assets	20		453
Increase in Investment-HFCK Mortgage Scheme	22	(10,750)	(11,213)
Finance Income -External Investment -non-Exchange Transactions	7	89,871	95,486
Net cash flows used in investing activities		<u>65,606</u>	<u>75,799</u>
Cash flows from financing activities			
Proceeds from borrowings			
Repayment of borrowings			
Capital grants from government	24	31,711	-
Net cash flows used in financing activities		31,711	-
Net increase in cash and cash equivalents		<u>437,070</u>	<u>(243,723)</u>
Cash and cash equivalents as at 1 July 2020		<u>1,125,807</u>	<u>1,369,530</u>
Cash and cash equivalents at 30 June 2021	16	<u>1,562,877</u>	<u>1,125,807</u>


Managing Trustee
Nancy C. Cheruiyot, FCCA

Date: 31/01/2022


Finance Manager
Silas N. Njagi
ICPAK No.5078

Date: 31/01/2022


Chairman, Board of Trustees
Hon. Samson Okioma


Date: 31/01/2022

Commodities Fund

Annual Report and Financial Statements for the Year ended 30th June 2021

17. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Description	Original Budget	Adjustments	Final Budget	Actual on Comparable basis	Variance	% Variance
ITEM DESCRIPTION	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	
INCOME						
Rendering of Services	652,516		652,516	363,170	(289,346)	(44)
Government Grants- Recurrent	30,000	18,289	48,289	48,289	-	-
Finance Income	114,565		114,565	87,058	(27,507)	(24)
Total Revenue	797,081		815,370	498,517	(316,854)	(39)
Expenses						
Use of Goods and Services	106,409	(600)	105,809	98,805	(7004)	7
Employees Costs	136,082		136,082	111,010	25,073	18
Remuneration to Trustees	18,276		18,276	18,949	(673)	(4)
Depreciation and Amortization Expenses	20,350		20,350	16,253	4,022	20
Repairs and Maintenance Costs	10,775	600	11,375	8,135	3,240	28
Contracted Services	2,000		2,000	2,000	0	0
Total Expenditures	293,892		293,892	255,152	38,741	13
Other Gains/(Losses)						
Gain on Disposal of Asset						
Loan Provisions	478,500		478,500	(593,118)	1,071,618	224
Surplus/(Deficit) For the Period	772,392		42,978	836,483	793,505	1,846



Managing Trustee
Nancy C. Cheruiyot, FCCA

Date: 31/01/2022



Finance Manager
Silas N. Njagi
ICPAK No.5078

Date: 31.01.2022



Chairman, Board of Trustees
Hon. Samson Okioma

Date: 31/01/2022

Commodities Fund

Annual Report and Financial Statements for the Year ended 30th June 2021

NOTES EXPLAINING THE VARIANCES BETWEEN THE BUDGET AND THE ACTUAL AMOUNTS ROUNDED IN THOUSANDS

Figure are rounded in Thousands.

1.0 Revenues

1.1 Rendering Services

The Fund's mandate is to provide sustainable and affordable credit and advances to farmers. For it to achieve the mandate, credit facilities must be advanced at the right time and within the crop season to guard against misapplication of funds. On 5th May 2020, the Fund received a letter from the Parent Ministry directing it to seek explicit concurrence from the office of the Cabinet Secretary on loan approvals and/or disbursements.

This directive has greatly affected the operations of the Fund as it has increased the loan turnaround time and affected uptake of loans by potential borrowers and in turn resulted in reduction in interest income the Fund would have received from the loan facilities the Fund undertook to disburse **Kshs. 150,000** to **Miraa**, **Kshs. 200,000** to **Coffee** and **Kshs. 350,000** to the **Sugar** sectors. The Fund has so far disbursed **Kshs. 321,168** resulting to a negative variance of **Kshs. 378,832**. The bulk of the amount disbursed was effected in the fourth quarter.

The negative variance is attributed to:

- i) **Kshs. 150,000** that was targeted for the Miraa Sector was recalled back by the National Treasury.
- ii) The long turnaround time to obtaining concurrence resulting to some client withdrawing their requests after concurrence has been received. Currently the Fund has loan approvals to the tune of **Kshs. 452,642** awaiting concurrence from the Parent Ministry. Out of this an amount **Kshs. 233,800** was submitted to the Parent Ministry on 28th January, 2021 and feedback is yet to be received despite reminders being sent.
- iii) Uncertainty on when funds will be received by potential loanees is affecting uptake of credit in the various regional offices

The impact of the directive on review of loan approval limits has affected the performance and reputation of the Fund. Potential loanees are seeking loans in the other financial institutions where they are assured of timely disbursement. If concurrence had been received for the loans approved by the Board the interest income levels of the fund would be higher.

The bulk of the Fund's non-performing loan portfolio was inherited from the former Coffee and Sugar Development Funds. The Credit policy of the Fund requires interest on loan facilities be frozen 5 years after the due date which has also affected the income levels of the Fund as a substantial number of loans already have their interest frozen. The Covid 19 pandemic affected income streams of some of the loanees who were relying on other sources of income to service their credit facilities.

1.2 Government Grants

The Fund was allocated **Kshs. 30,000** recurrent grants from the Government of Kenya to supplement recurrent expenditure. Additionally, the Fund was allocated **Kshs.50,000** coconut development grants of which **Kshs.18,289** was utilized to support recurrent expenditure associated with the project and the balance totaling to **Kshs.31,711** was capitalized as coconut revolving capital.

Commodities Fund

Annual Report and Financial Statements for the Year ended 30th June 2021

2. Goods and Services

The Good and services expenses include Electricity, Water, Security, Professional Fee and Subscriptions and legal costs which amounted to **Kshs. 98,805** against budget of **Kshs. 105,809** resulting to positive variance of **Kshs. 7,004**. The variance is attributed to the fact that the one of the court case budgeted for was not concluded as anticipated.

2. Employees Costs

Employee cost during the year amounted to **Kshs. 111,010** against budget of **Kshs. 136,082** resulting to underutilization by **Kshs. 25,073**. The Fund had anticipated to employ thirteen new employees from July 2020 but the authority to employ was received late and the thirteen new employees were employed in November. Secondly, Comfund had budgeted to harmonize staff salaries subject to approval of new structure but this was not realized since the structure was not approved. The two factors are responsible for underutilization of **Kshs. 25,073** noted under the vote.

3. Remuneration to Trustee

Remuneration to Directors during the year was **Kshs. 18,949** compared to budget of **Kshs. 18,276** which resulted to negative variance of **Kshs.673**. The over expenditure was occasioned by appointment of new directors midstream and the Fund has to offer basic training which lead to the noted over expenditure.

4. Depreciation and amortization cost

Depreciation and amortization of assets amounted to **Kshs. 16,253** against budget of **Kshs. 20,350** resulting variance of **Kshs. 4,098**. This under expenditure was as was mainly as a result of acquiring the Budgeted Motor Vehicle and other assets very late in the year which meant their contribution to provision was minimal.

8. Repairs and Maintenance Costs

The reported repairs and maintenance expenditure during the year was **Kshs. 8,135** against budget of **Kshs. 11,375** resulting to under expenditure of **Kshs. 3,240**. During the year, the service provider for ERP systems was changed and the new service provider came with lower cost compared to previous service provider. Secondly, the service provider was brought on board in January and therefore no cost was incurred for a period of six months on ERP support.

10. Contracted Services

The Fund contracted valuation services for the loan securities and the cost of the service was **Kshs. 2,000** which fitted the set budget of **Kshs. 2,000**.

18. 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 (Amended in May 2016). The ComFund is wholly owned by the Government of Kenya and is domiciled in Kenya. The ComFund's principal activity is to provide sustainable, affordable and accessible credit and advances to farmers.

2. Statement of Compliance and Basis of Preparation

The ComFund'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 is 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 ComFund.

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

A number of new and amendments and interpretations that were applicable for the first time in 2020, did not have an impact on the financial statements of the Fund. The Fund early adopted IPSAS 41 Financial Instruments in 2018/2019 and the standard becomes effective 1st January 2023. The impact of adoption was disclosed in the year of adoption. No other early adoption for standards, interpretations or amendments that have been issued but are not yet effective.

The following amendments became effective during the period:

New standards or amendments	Effective for annual period Beginning or after
References to IPSAS on impairment (Amendments to IPSAS 13	1 January 2021
Property, Plant, and Equipment (IPSAS 13, leases IPSAS 17)	1 January 2021
Impairment of Non-Cash-Generating Assets (IPSAS 21)	1 January 2021
Impairment of Cash-Generating Assets (IPSAS 26)	1 January 2021
Amendments to ensure consistency of impairment guidance to	

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Account for revalued assets in the scope of IPSAS 17	1 January 2021
Property, Plant, and Equipment and IPSAS 31, Intangible Assets	1 January 2021
First-time Adoption of Accrual Basis IPSASs (IPSAS 33)	1 January 2021
New standards or amendments	Effective for annual period beginning
1. Social benefits (IPSAS 42)	1 January 2023
2. Other IPSAS resulting from IPSAS 41, Financial Instruments	
a) Update on the guidance related to the components of Borrowing costs amendments to IPSAS 5	1 January 2023
b) Hedging and credit risk –amendments to IPSAS 30	1 January 2023
c) Guidance for accounting for financial guarantee contracts- Amendments to IPSAS 30	1 January 2023

None of the standards and interpretations listed above are expected to have a significant impact on the Funds' financial statements when they become effective.

i) Early adoption of standards

The ComFund has opted to adopt the IPSAS 41 in year 2019.

Impact of adoption

Prior to adoption of IPSAS41, the ComFund used provisioning model based on due date of the of loan receivables. Provisioning would commence once the entire loan was due for payment and the applicable rates were as follows:

Not Due	-	No Provision
Due between one day to one year	-	1%
Due Above one year to three years	-	2 %
Due Above three years to five years	-	15%
Due beyond five years	-	100%

Application of the above model as at 30th June 2019 resulted provisions as illustrated follows:

The provisioning model adopted in 2019/20 which is aligned to the prudential guideline issued by the central of Kenya and the requirements of IPSAS 41 is as follows:

Performing	(No instalment in arrears)	-	1%
Watch	(1-3 instalment in arrears)	-	3%
Substandard	(4-6 Instalments in arrears)	-	20%
Doubtful	(7-12 Instalment in arrears)	-	100%
Loss	(Above 12 Instalments in arrears)	-	100%

Resultant provisions based on the model is as follows:

Commodities Fund
Annual Report and Financial Statements for the Year ended 30th June 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

CLASSIFICATION OF THE PRINCIPAL COMPONENT OF SUGAR LOANS AS AT 30TH JUNE 2021

CATEGORY	OUTSTANDING PRINCIPAL	PROVISION RATE	PROVISION JUNE 2021	PROVISION JUNE 2020	INCREASE IN PROVISION
NORMAL (GRADE 1) - 1%	607,729	1%	6,077	5,633	445
WATCH (GRADE 2) - 3%	1,283	3%	38	-	38
SUB-STANDARD (GRADE 3) - 20%	498,710	20%	99,742	-	99,742
DOUBTFUL (GRADE 4) - 100%	-	100%	-	16,919	(16,919)
LOSS (GRADE 5) - 100%	14,126,056	100%	14,126,056	14,742,733	(616,677)
TOTAL	15,233,778		14,231,914	14,765,285	(533,371)
Less Loan Securities			(105,799)	-	(105,799)
Net Provisions			14,126,115		(639,170)

CLASSIFICATION OF THE INTEREST COMPONENT OF SUGAR LOANS AS AT 30TH JUNE 2021

CATEGORY	OUTSTANDING PRINCIPAL	PROVISION RATE	PROVISION JUNE 2021	PROVISION JUNE 2020	INCREASE IN PROVISION
NORMAL (GRADE 1) - 1%	7,611	1%	76	71	5
WATCH (GRADE 2) - 3%	24,572	3%	737	-	737
SUB-STANDARD (GRADE 3) - 20%	-	20%	-	75	(75)
DOUBTFUL (GRADE 4) - 100%	-	100%	-	-	-
LOSS (GRADE 5) - 100%	4,348,060	100%	4,348,060	4,093,878	254,183
TOTAL	4,380,243		4,348,873	4,094,024	254,849
Less Loan Securities			(813)	-	(813)
Net Provisions			4,348,060	4,094,024	254,036

CLASSIFICATION OF THE PRINCIPAL COMPONENT OF COFFEE LOANS AS AT 30TH JUNE 2021

CATEGORY	OUTSTANDING PRINCIPAL	PROVISION RATE	PROVISION JUNE 2021	PROVISION JUNE 2020	INCREASE IN PROVISION
NORMAL (GRADE 1) - 1%	53,797	1%	538	3,513	(2,975)
WATCH (GRADE 2) - 3%	52,310	3%	1,569	611	958
SUB-STANDARD (GRADE 3) - 20%	3,780	20%	756	1,121	(365)
DOUBTFUL (GRADE 4) - 100%	16,293	100%	16,293	32,661	(16,368)
LOSS (GRADE 5) - 100%	744,013	100%	744,013	770,814	(26,801)
TOTAL	870,193		763,169	808,720	(45,551)
Less Loan Securities			(156,861)	-	(156,861)
Net Principal Provisions			606,308		(202,412)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

CLASSIFICATION OF THE INTEREST COMPONENT OF COFFEE LOANS AS AT 30TH JUNE 2021

CATEGORY	OUTSTANDING PRINCIPAL	PROVISION RATE	PROVISION JUNE 2021	PROVISION JUNE 2020	INCREASE IN PROVISION
NORMAL (GRADE 1) - 1%	684	1%	7	73	(66)
WATCH (GRADE 2) - 3%	3,612	3%	108	19	90
SUB-STANDARD (GRADE 3) - 20%	485	20%	97	68	29
DOUBTFUL (GRADE 4) - 100%	3,005	100%	3,005	2,282	723
LOSS (GRADE 5) - 100%	389,593	100%	389,593	324,864	64,730
TOTAL	397,378		392,810	327,305	65,505
Less Loan Securities			(71,077)	-	(71,077)
Net Provisions			321,733		(5,572)

Total Provisions**(593,118)**

Whereas the best practice recommends charging such provisions retrospectively, it was impractical to identify and isolate specific provision for prior periods and as a result all provisions was charged in the period under review.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

➤ **Interest Computation**

ComFund loans are on lent to coffee, sugar and Coconut subsectors at a rate of between 4 and 10 % per annum depending on loan type.

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 ComFund. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or ComFund differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

c) 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 ComFund 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 ComFund 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. Assets are depreciated on pro-rata based on time the asset was in use. The applicable rates are as indicated below:

Motor Vehicles	-	25%
Equipment	-	20%
ICT Equipment	-	33 ¹ / ₃ %
Furniture and Fittings	-	12.5%
Plant- Generator	-	10%
Intangibles	-	8%

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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) Leases

The Commodities Fund assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Commodities Fund holds operating leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased offices to the Fund. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

f) Financial Instruments

Financial Assets

Initial Recognition

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

Specific provision is made against loans and advances at different rates applicable to each of the five loan categories. The amount of provision is the difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows discounted at the effective interest rate of loans.

The provisioning rates adopted from 2018/19 are as follows:

Performing	(No instalment in arrears)	- 1%
Watch	(1-3 instalment in arrears)	- 3%
Substandard	(4-6 Instalments in arrears)	- 20%
Doubtful	(7-12 Instalment in arrears)	- 100%
Loss	(Above 12 Instalments in arrears)	- 100%

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Where a loan or an advance in loss category is declared irrecoverable, authority is sought from the National Treasury to write off the debts 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 net of provisions in the statement of financial position.

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 ComFund 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.

g) 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.

h) 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.

For the period ended 30th June 2019 ComFund did not have any present obligation to warrant provision.

i) Nature and purpose of reserves

The ComFund has created and maintained reserves in terms of specific requirements. For this purpose, the ComFund maintains capital reserves where all capital grants meant for loans disbursement are accumulated. In addition the ComFund 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

j) Changes in accounting policies and estimates

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

k) Employee Benefits Obligations

Retirement benefit plans

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

The ComFund 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 ComFund's obligation under the scheme is limited to the specific contributions legislated by government from time to time and is currently at Kshs200 per employee per month. Comfund's contribution towards the two schemes is charged in the financial statements.

l) 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 ComFund, Trustees and members of key management are viewed as related parties while outside the ComFund, Agriculture and Food Authority (AFA) was taken as related party. The ComFund got its first trustees in the last quarter of the year.

m) 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.

n) Comparative figures

Comparative figures represent figures for the (12) months period ended 30th June, 2020 and were necessary restated to conform to the requirement of IPSAS.

o) 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, 2021.

5. Significant Judgements and Sources of Estimation Uncertainty

Estimates and Assumptions

In the process of applying the ComFund's accounting policies, the ComFund'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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

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 estimate the recoverable amount of the cash generating unit to which the asset belongs.

d) Provisions and contingent liabilities

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

Contingent liabilities

The ComFund 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 ascertained.

Contingent assets

The ComFund 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 ComFund 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.

Commodities Fund
Annual Report and Financial Statements for the Year ended 30th June 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. Transfers from Other Government Entities

Description	2020-2021	2019-2020
	KShs`000`	KShs `000`
Unconditional grants		
Operational grant	30,000	-
Other grants	-	-
Total Unconditional Grants	30,000	-
Conditional grants		
Coconut revitalization project grant	50,000	-
Total government grants and subsidies	80,000	-

Coconut revitalization project grant is the first batch of the Kenya shillings one billion requested by the commodities fund from Government to form a revolving fund from where the coconut subsector can borrow loans at affordable rates to develop the sector.

b) Transfers from Ministries, Departments and Agencies (MDAs)

Name of the Entity sending the grant	Amount recognized to Statement of Financial performance KShs`000`	Amount deferred under deferred income KShs`000`	Amount recognised in capital fund.	Total transfers 2020/21	Prior year 2019/2020
			KShs`000`	KShs`000`	KShs`000`
Ministry of Agriculture, Livestock, Fisheries and Cooperatives	48,288	-	31,712	80,000	-
Total	48,288	-	31,712	80,000	-

The details of the reconciliation have been included under appendix 111.

6 Finance Income-External Investments	2020/2021	2019/2020
	Kshs '000	Kshs '000
Revenue Income-GOK Operations	30,000	
Revenue Income-GOK Coconut	18,289	
Revenue Income-GOK Other Crops		
Total Revenue Grants	<u>48,289</u>	
7 Finance Income, External Investments	2020/2021	2019/2020
	Kshs `000`	Kshs `000`
Interest income from Treasury Bonds	4,338	3,897
Cash Investment and Fixed Deposits-Received Income	73,035	78,821

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

	-Accrued Income	12,423	12,770
Interest Income Loans Debtors-	Coffee Portfolio	51,632	38,858
	-Sugar Portfolio	303,638	338,609
	-Coconut Portfolio		
	-Other Crops		
Interest Earned Staff Mortgage Scheme			
Interest Earned on Car Loan Scheme		75	
Total Finance Income-External Investments		<u>445,141</u>	<u>472,955</u>

ComFund invests its excess liquid cash in short term deposits with the approved financial institutions to generate income pending disbursement of such funds. Further, the Fund held 12 Year GOK Infrastructure Bond of Kshs.35,955,000 which will mature in 2022. Interest to Coffee and Sugar Sector is charged between 4 and 10% p.a depending on loan type.

8. Other income

	2020/2021	2019/2020
	Kshs '000	Kshs '000
Loan Processing Fee	4,827	7,631
ICPP Income	260	126
Other Income Total	<u>5,087</u>	<u>7,757</u>

Loan processing fee of 1.5% of the approved loan amount is charged on all loans issued by the ComFund.

	2020/2021	2019/2020
	Kshs '000	Kshs '000
9. User of Good & Service		Restated
Electricity & Water	740	930
Security	1,130	1,034
Professional Services	3,302	2,411
Subscriptions	553	684
Printing and Stationery	3,440	2,597
Communication Telephone and Postage	2,199	2,578
Vehicle Running Expenses	7,207	5,234
Insurance Expenses	2,001	3,468
Stakeholder Forum Expenses	6,054	7,724
International Travel		3,542
Rent and Rates	12,744	11,604
Cleaning, Garbage & Sanitary	163	132
Management Fees		
Newspapers, Periodicals, Journals and Subscriptions	29	330

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Advertising and Publicity	1,122	4,014
Bank Charges	827	902
Staff Welfare	2,308	2,392
Trainings, Seminar, Retreats and Workshops	6,655	16,430
Shows, Exhibitions & Trade Fairs	1,079	2,046
Corporate Social Responsibility	1,399	1,529
Travel, Accommodation, Subsistence and Other Allowances	20,531	17,492
ICPP Project expenditure	3,342	4,040
Coconut Revitalization Project recurrent cost	18,289	0
Corporate Planning & Strategic Plan	382	47
Other Office General Expenses	<u>3,309</u>	<u>2,972</u>
Total Use of Goods and Services	<u>98,805</u>	<u>94,132</u>

The Figures in Note 9 were restated after the re-categorisation of loan loss provision as a stand-alone item of **Kshs 327,092,000** and inclusion of use of goods **Kshs 5,059,000** into the above note for the prior year.

	2020/2021	2019/2020
	Kshs '000'	Kshs '000'
10 Employee Costs		
Salaries & Wages	61,172	54,971
Employee Related Cost-Pensions Contributions & medical Aids	23,901	18,795
Housing benefits and Allowances	<u>25,937</u>	<u>22,319</u>
Total Employee Costs	<u>111,010</u>	<u>96,085</u>
11 Remunerations of Trustees		
Chairman's Honorarium	960	960
Sitting Allowances	7,860	6,574
Trustees Accommodation & Subsistence Allowances	5,326	5,269
Others) Trainings, Medical, Travel etc)	<u>4,803</u>	<u>4,935</u>
Total Remunerations of Trustees	<u>18,949</u>	<u>17,738</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2020/2021	2019/2020
	Kshs '000'	Kshs '000'
12 Depreciation and Amortization Expense		
Property, Plant and Equipment	13,279	14,179
Intangible Assets	<u>2,974</u>	<u>2,935</u>
Total Depreciation and Amortization	<u>16,253</u>	<u>17,114</u>
13 Repairs and Maintenance		
Buildings	475	635
Automobiles	2,249	2,366
Computer and Electronic Equipment	2,538	3,132
Annual Software Licenses	2,781	4,536
Furniture and Fittings	<u>92</u>	<u>15</u>
Total Repairs and Maintenance	<u>8,135</u>	<u>10,685</u>
14 Contracted Services		
Loan Security Valuation	<u>2,000</u>	
Total Loan Security Valuation	<u>2,000</u>	
15 Gain on Disposal of Asset		
Gain in Disposal of Motor Vehicle		<u>453</u>
Total Gain on Disposal of Asset		<u>453</u>
16 Cash and Cash Equivalents		
a) Bank		
Cash Accounts	0	
Current Accounts	15,541	19,602
On Call Deposits		62,000
Fixed Deposits	1,532,883	1,044,112
Others	14,453	93
Total Cash and Cash Equivalents	<u>(1,562,877)</u>	<u>(1,125,807)</u>
16(i) Detailed Analysis Cash and Cash Equivalents		
Financial Institution	Account Number	
	2020/2021	2019/2020
	Kshs '000'	Kshs '000'

Commodities Fund
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

a) Current Accounts

Cooperative Bank (a)	01136030994600	(607)	6,213
Cooprative Bank (b)	01136030994601	8,577	1,807
Cooperative Bank (c)	01136035349800	6,601	2,494
National Bank	01345061389300	750	9,011
Sidian Bank	01033020007800	0	2
Equity Bank	01330299214184	43	-
Family Bank	014000033336	162	76
Kenya Commercial Bank	01132784905	15	(1)
NCBA Bank	1000124326	-	-
Sub Total		15,541	19,602

(b) On Call Deposits Account

Cooperative Bank		-	62,000
National Bank		-	-
		-	-
Sub-Total		-	62,000

(C) Fixed Deposits Account

NCBA Bank		297,196	263,886
Cooperative Bank		252,334	102,781
Family Bank		188,453	204,614
Development Bank		-	-
Kenya Commercial Bank		295,011	290,526
National Bank		198,081	182,304
Equity Bank		260,204	-
Credit Bank		41,604	-
Sub-Total		1,532,883	1,044,111

d) Others

Safaricom-Mkahawa	552601	3,429	8
Safaricom-Paybill	552600	11,024	86
-	-	-	-
<u>Sub Total</u>	-	<u>14,453</u>	<u>94</u>

<u>Grand Total</u>	-	<u>1,562,877</u>	<u>1,125,807</u>
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

17	i) Current Receivables from Investments		2020/2021 Kshs '000'	2019/2020 Kshs '000'
	Interest Receivable from Investments		12,936	12,753
	Total Current Receivables		<u>12,936</u>	<u>12,753</u>
			2020/2021	
	ii) Interest on Loans and Advances	Sugar Kshs '000'	Coffee Kshs '000'	Total Kshs '000'
	Gross Interest on Loans & Advances	4,380,243	397,377	4,777,620
	Provisions			
	Provisions B/F 1.7.20	(4,094,024)	(324,751)	(4,418,775)
	Provision Charge for the year	(254,036)	5,572	(248,464)
	Total Provisions as at 30.06.21	<u>(4,348,060)</u>	<u>(319,179)</u>	<u>(4,667,239)</u>
	Net Interest Receivable on Loans and Advances as at 30.06.21	<u>32,182</u>	<u>78,198</u>	<u>110,380</u>
			2019/2020	
	Interest on Loans and Advances	Sugar Kshs '000'	Coffee Kshs '000'	Total Kshs '000'
	Gross Interest on Loans & Advances	4,101,357	332,859	4,434,216
	Provisions			
	Provisions B/F 01.07.19	(3,853,101)	(307,457)	(4,160,558)
	Provision Charge for the year	(240,923)	(17,294)	(258,217)
	Total Provisions as at 30.06.20	<u>(4,094,024)</u>	<u>(324,751)</u>	<u>(4,418,775)</u>
	Net Interest Receivable on Loans and Advances as at 30.06.20	<u>7,333</u>	<u>8,108</u>	<u>15,441</u>
	iii) Current Receivable Loans & Advances		2020/2021 Kshs '000'	2019/2020 Kshs '000'
	Loans and Advances from exchange transactions- Coffee		39,308	280,760
	-Sugar		577,330	431,619
	Total current receivables		<u>616,638</u>	<u>712,379</u>

Commodities Fund
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 Inventories	2020/2021 Kshs '000'	2019/2020 Kshs '000'
Consumables Stores	901	794
Total Inventories at lower of cost and net realizable Value	901	794

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 Property, plant and equipment as at 30th June 2021

	Motor Vehicles KSHS'000'	Computer and Electronic Equipment KSHS'000'	Generator, Office and Communication Equipment KSHS'000'	Furniture and Fittings KSHS'000'	TOTAL KSHS'000'
Cost					
At 1 July 2019	56,137	60,297	6,597	29,838	152,868
Additions	3,960	4,354	-	-	8,314
Disposals	(4,030)	-	-	-	(4,030)
Transfers/adjustments	-	(2,661)	-	-	(2,661)
At 30 June 2020	56,067	61,990	6,597	29,838	154,491
Additions	9,015	2,805	10	86	11,916
Disposals	-	-	-	-	-
Transfer/adjustments	-	-	-	-	-
At 30th June 2021	65,082	64,795	6,607	29,924	166,407
Depreciation and impairment					
As At 1st July 2019	(43,083)	(55,266)	(3,579)	(18,873)	(120,804)
Depreciation	(7,173)	(3,390)	(492)	(3,124)	(14,179)
Impairment	-	-	-	-	-
Disposals	4,030	-	-	-	4,030
Transfer/adjustments	-	2,661	-	-	2,661
At 30 June 2020	(46,227)	(55,996)	(4,072)	(21,997)	(128,292)
Depreciation	(5,281)	(4,032)	(578)	(3,387)	(13,279)
Disposals	-	-	-	-	-
Impairment	-	-	-	-	-
Transfer/adjustment	-	266	-	(266)	-
At 30th June 2021	(51,508)	(59,763)	(4,651)	(25,650)	(141,572)
Net book values					
At 30th June 2021	13,574	5,032	1,955	4,274	24,836
At 30th June 2020	9,841	6,260	2,523	7,575	26,199

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Fully depreciated assets included in the above historical costs are as follows:

- | | |
|---------------------------|-----------------|
| 1. Motor vehicles | Kshs.34,955,000 |
| 2. Office Equipment | Kshs.2,659,000 |
| 3. ICT Equipment | Kshs.50,448,000 |
| 4. Furniture and Fittings | Kshs.2,740,000 |

Restatement

The depreciation figures of Kshs 3,390,000 and Kshs 3,124,000 in Computer & Electronic equipment and Furniture & Fittings respectively were classified wrongly in Financial Year 2019.2020 resulting to a difference of Kshs 266,000.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21. Intangible Assets –Software	2020/2021	2019/2020
Cost	Kshs '000	Kshs '000
At the beginning of the Year	39,574	36,300
Additions	1,600	613
At end of year	41,174	36,913
Transfer/ Adjustments	-	2,661
At end of the year	41,174	39,574
Amortization and Impairment		
At the beginning of the Year	(9,951)	(4,355)
Adjustment of Overstated Amortization Expense in FY2017.18	-	-
Amortization for the year	(2,974)	(2,935)
At end of the year	(12,925)	(7,290)
Impairment Loss	-	-
Transfer/ Adjustments	-	(2,661)
At end of the year	(12,925)	(9,951)
NBV	<u>28,249</u>	<u>29,623</u>

Assets amounting to Kshs. 2,261,336 included in the historical costs of intangibles are fully depreciated.

22 Investments	2020/2021	2019/2020
	Kshs '000'	Kshs '000'
a) Investment in Treasury bills & Bonds Financial Institution		
CBK-12 Year GOK Infrastructure bond	35,955	35,955
b) Investment in Staff Mortgage Scheme		
Housing Finance Corporation-Staff Mortgage Scheme	84,603	74,085
c) Investments in Staff Car loan Scheme		
Family Bank-Staff Car Loan Scheme	<u>10,807</u>	<u>10,575</u>
Grand Total	<u>131,365</u>	<u>120,615</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2020/2021	2019/2020			
		Kshs '000'	Kshs '000'			
23	Trade and Other Payables from Exchange Transactions					
	Trade Payables	9,608	3,420			
	Payment Received in Advance	44,852	10,643			
	Payroll Liabilities	63	0			
	Third Party Payable	8,061	7,839			
	Loan Security Deposit	<u>1,240</u>	<u>2,489</u>			
	Total Trade and Other Payables	<u>63,825</u>	<u>24,391</u>			
24.	Capital Reserves					
	Notes	Revolving fund Sugar	Revolving Fund Coffee	Coconut Fund	Revaluation Reserve	Total
		Kshs	Kshs	Kshs	Kshs	Kshs
	Balance as at 30 JUNE 2019	13,554,512	1,675,206	-	3,421	15,233,139
	Adjustment of overstated amortization expense FY2017.18		-	-	-	-
	Surplus for the period	-	-	-	-	-
	Balance as at 30 JUNE 2020	13,554,512	1,675,206	-	3,421	15,233,139
	Opening 1st July 2020	13,554,512	1,675,206	-	3,421	15,233,139
	Coconut Grant			31,711		31,711
	Balance as at 30th June 2021	<u>13,554,512</u>	<u>1,675,206</u>	<u>31,711</u>	<u>3,421</u>	<u>15,264,852</u>
25.	Revenue Reserve					
					Revenue Reserve	
					Kshs '000'	
	Balance as at 30 JUNE 2019				(12,871,708)	
	Adjustment for reversal of provision for over lent loan by Taifa Sacco FY2017.18				2,790	
	Surplus for the period				(81,681)	
	Balance as at 30 JUNE 2020				(12,950,599)	
	Opening 1st July 2020				(12,950,599)	
	Coconut Grant				-	
	Prior Year Adjustment				74,939	
	Surplus for the year				836,483	
	Balance as at 30th June 2021				<u>(12,039,180)</u>	

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26. Cash generated from operations

Item	Balance C/Down Kshs.'000'	Balance B/F Kshs.'000'	2021 Kshs.'000'	2020 Kshs.'000'
Surplus reported in the year			836,483	(81,681)
Depreciation for the year			16,253	17,114
Non Cash Adjustments to equity	19,402,216	19,995,334	(593,118)	327,092
Gain on Disposal of Asset				(453)
Contributions to provisions			593,118	(327,092)
Adjustment for Loans Interest	74,939	-	74,939	2,790
Finance Income -External Investment-Non Exchange Transactions			(89,871)	(95,488)
Increase in Loans and Advances (Net Loans)	1,371,544	929,643	(441,901)	(166,300)
Increase in Receivables (Investment Income)	12,936	12,753	(183)	(1,378)
increase in other Receivables (Net Loan Interest)	110,380	15,441	(94,939)	5,608
Increase in other receivables	46,410	46,055	(355)	(599)
Sub Total	169,726	74,249	(95,477)	3,631
Increase in Payables	63,825	24,391	39,434	575
Change in Inventory	901	794	(107)	291
Net Cash generated from operating activities			<u>339,753</u>	<u>(319,522)</u>

27. Financial Risk Management

The ComFund'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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 ComFund has no significant concentrations on credit risk. The ComFund 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 ComFund's maximum exposure to credit risk is as follows:

	Total Amount Kshs 000	Fully Performing Kshs 000	Past Due Kshs 000	Impaired Kshs 000
As at 30.06. 2021				
Receivables from exchange transactions	20,879,039	669,821	584,752	19,624,466
Receivables from non-exchange transactions	61,820	21,820	40,000	-
Bank balance	1,562,607	1,562,607	-	-
Total	22,503,466	2,254,248	624,752	19,624,466
As at 30.06. 2020				
Receivables from exchange transactions	20,948,751	935,153	79,165	19,934,433
Receivables from non-exchange transactions	46,055	6,055	40,000	-
Bank balance	1,125,807	1,125,807	-	-
Total	22,120,613	2,067,015	119,165	19,934,433

(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 ComFund'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.

Ability to replace, at an acceptable cost, interest-bearing liabilities, as they mature are important factors in assessing the liquidity of the ComFund and its exposure to interest rates. The ComFund does not maintain cash resources to meet all liabilities as they fall due as experience

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

	Less than 1 month Kshs 000	Between 1-3 months Kshs 000	Over 5 month Kshs 000	Total Kshs 000
As At 30.06.2020				
Trade Payables & Other Payables	63		59,927	59,991
Current portion of borrowings	-	-	-	-
Provisions	-	-	-	-
Deferred income	-	-	-	-
Employee benefit obligations	-	-	-	-
Total	63		59,927	59,991
As At 30.06.2020				
Trade Payables & Other Payables	3,420		20,971	24,391
Current portion of borrowings	-	-	-	-
Provisions	-	-	-	-
Deferred income	-	-	-	-
Employee benefit obligations	-	-	-	-
Total	3,420	-	20,971	24,391

(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.

The ComFund'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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

There has been no change to The ComFund'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 Comfund's capital risk management is to safeguard the Board's ability to continue as a going concern. The Comfund capital structure comprises of the following funds:

	2020-2021		2019-2020
	Kshs 000		Kshs 000
Revaluation reserve	3,421		3,421
Revenue Reserve	(12,039,180)		(12,950,348)
Capital reserve	15,229,718		15,229,718
Total funds	3,225,672		2,282,791
Total borrowings	0		0
Less: Cash and bank balances	(1,562,877)		(1,125,807)
Net debt/(excess cash and cash equivalents)	1,562,877		1,125,807
Gearing	100%		100%

28. 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 ComFund, Directors and members of key management are viewed as related parties while outside the ComFund, Ministry of Agriculture, Livestock, Fisheries and Co-operatives and Agriculture and Food Authority (AFA) were regarded as related parties.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2020/2021	2019/2021
	Kshs 000	Kshs 000
Transactions with related Parties		
a) Sales to related Parties		
Sales of goods	-	-
Sales of services	-	-
Total	-	-

b) Grants from the Government		
Grants from the National Govt.	80,000	-
Grants from County Government	-	-
Donations in kind	-	-

Total	80,000	-
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c) Expenses incurred on behalf of related party		
Payments of salaries and wages for AFA employees	0	0
Payments for goods and Services	-	-
Total	0	0

d) Key Management Compensation		
Directors' emoluments	18,949	17,738
Compensation to the CEO	6,577	6,212
Compensation to Key Management	31,248	28,077
Total	52,027	59,222

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:

	2020/2021	2019/2020
	<u>Kshs 000</u>	<u>Kshs 000</u>
Trustees Emolument	18,949	17,738
Compensation to Managing Trustee	6,577	6,212
Key Management compensation	<u>31,248</u>	<u>28,077</u>
	<u>56,774</u>	<u>52,027</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The sugar loan portfolio managed by Comfund was inherited from AFA and the hand over process is not fully concluded.

c) Due from related parties

	2021/2020	2019/2020
	<u>Kshs 000</u>	<u>Kshs 000</u>
Due from Ministry of Agriculture, Livestock, Fisheries & Co-operatives	40,000	40,000
	<u>40,000</u>	<u>40,000</u>

The Ministry of Agriculture, Livestock, Fisheries and Co-operatives requested to be advanced a total of Kshs. 40 million in 2017 that was to be reimbursed immediately when the ministry received its funds from the National Treasury but is yet to be reimbursed.

29 Contingent Liabilities

Contingent liabilities	2021/2020	2020/2019
	<u>Kshs 000</u>	<u>Kshs 000</u>
One court case against the Comfund	18,998	4,300
Total	<u>18,998</u>	<u>4,300</u>

The Comfund has litigation against it which involves a spousal consent dispute on a property secured against a loan with the exposure estimated at around **Kenya shillings Eighteen Million Nine Hundred Ninety Eight Thousand (Kshs 18,998,000)**. However, management is of opinion that the case will be judged in its favour hence no need for provision in the financial statements.

30 Operating Lease commitments

Rental expenses incurred during the year was Kshs.12,743 (2020– Kshs.11,604). At the reporting date, the Fund had contracted with landlords for the following minimum future lease payables:

The Fund as a lessee:	2020/ 2021	2019/2020
	Kshs'000	Kshs'000
Within one year	13,648	12,743
In the second to fifth year inclusive	<u>30,767</u>	<u>44,415</u>
	<u>44,415</u>	<u>57,158</u>

Operating leases relate to the office spaces that are negotiated for a maximum term of 5 years, with the rentals being reviewed every two years and hence classified as operating leases. The leases are cancellable with a penalty when the landlord is not given notice to vacate the premises in accordance with lease agreement. The Fund as a lessees does not have an option to purchase the property at the expiry of the lease period.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 Prior Year Adjustment

During the year, the Fund carried out reconciliation on its loans and perfected configuration of the Credit Management System an exercise which resulted to adjustment of loans and interest. Overly, interest on loans were found to have been understated by Kshs. 74,939 that was corrected by charging the amount into the Revenue Reserves in the Statement of Changes in Net Assets.

Reconciliation of Sugar Portfolio		
	Sugar Principal	Sugar Interest
Balance as at 30.06.20	15,322,910	4,101,357
Reclassification from interest to Principal	3,969	(3,969)
Adjustments due to Recalculation	338	35,951
Interest Accrual in the Year/ Disbursements	300,000	303,637
Sugar Repayments in the year	393,443	56,734
Reported Balance as at 30.06.21	15,233,773.03	4,380,242.66

Reconciliation on Coffee Portfolio

	Coffee Principal	Coffee Interest	Overpayment	Repayment under reconciliation	Farmers Payable	unidentified
Balance as at 30.06.20	1,180,738	332,859	5,116	-	4,910	5,528
Reclassification relating to 2016.2017	4,493	23,893	18,910	8,674	(555)	(2,978)
Adjustments to recalculation of interest	1,970	34,694	-	2,011	-	-
Adjustments FY 2017.18 to FY2019.20	9,995	(7,817)	857	2,353	-	(1,032)
Disbursement/Interest Accrual /Additions	21,168	51,632	2,719	2,274	-	78
Coffee Repayments in the year	348,171	37,884	-	-	-	-
Balance as at 30.06.21	870,193	397,377	27,601	15,312	4,355	1,596

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of the Reconciliation							
Reclassification affecting Revenues Reserves AC	(4,493)	(23,893)	18,910	8,674	(555)	(2,978)	(4,335)
Adjustments to recalculated coffee interest	(1,970)	(34,694)		2,011			(34,653)
Adjustments recalculated sugar interest		(35,951)					(35,951)
Total charged to Reserves	(6,463)	(94,538)	18,910	10,686	(555)	(2,978)	(74,939)

32 Coconut Revitalization Project

The Comfund received from GOK development grant amounting to **Kshs. 50,000** being the first disbursement of the **Kshs. 1,000,000** requested to operationalize a revolving fund amounting to **Kshs. 812,500** for the sector. The revolving fund was allocated **Kshs. 31,711** of the **Kshs. 50,000** received in the year while the recurrent costs associated with the project took **Kshs. 18,289**. The Coconut Credit Scheme is currently operational and the lending capital is expected to grow as the government releases more funds into the project in the next four years.

33 Material Uncertainty

The Comfund has cumulative deficit totalling to **Kshs. 12,039,181** occasioned by huge provisions for non-performing loans. Cumulative Provisions charged in the financial statements stood at **Kshs. 19,399,662**. Majority of the non-performing loans are held in sugar sector and more so by government owned sugar millers and out grower institutions. The sugar loan portfolio was grossly under provisioned when it was handed over to ComFund which necessitated enhancement of provisions to adequately cover the non-performing loans. The issue of non-performing debts will be addressed by privatization of government owned sugar millers a matter under government consideration.

34 Capital Commitments

Capital commitments	2020/2021	2019/2020
	Kshs	Kshs
	000	000
Authorised for	-	-
Authorised and contracted for	-	-
Total	=	=

At the end of the year the Comfund did not commit any funds.

35 Events after the reporting period

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

36 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.

37 Currency

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

19. 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.

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)	Time-frame: (Put a date when you expect the issue to be resolved)
1. Long Term Receivables from Exchange Transactions - Loans and Advances	<p>1.1 High Rate of Provisioning on Loans and Advances</p> <p>The statement of financial position reflects long term receivables from exchange transactions – loans and advances totaling to Kshs. 214,474,000 and as disclosed under note 16(iv) to the financial statements. The total receivables net of provisions amounted to Kshs. 926,803,000. The gross loans and advances amounted to Kshs. 16,503,648,000 with a total provision of Kshs. 15,576,844,000 resulting to 94% of the loans and advances to farmers put under provisioning. It was not clear reason behind the huge outstanding loans put under provisioning.</p> <p>Consequently, the legality, accuracy and completeness of the long-term receivables from exchange transactions – loans and advances totaling to Kshs. 214,474,000 cannot be confirmed. Further the loan default rate is high and going concern of the fund can be threatened since loans management is the core business of the entity.</p>	<p>Kshs. 757,591,523.05 was inherited from Coffee Development Fund (CODEF) and the Agriculture and Food Authority (AFA) handed over to Commodities Fund, the Sugar Development Fund (SDF) loan book which includes principal loan, accrued interest and book provisions for non-performing loans amounting to Kshs. 12,862,899,003 Kshs. 2,119,717,066 and Kshs. 4,172,474,525 respectively. AFA further handed over to Commodities Fund loans amounting to Kshs. 2,811,344,927.99 being disbursements made by the Authority to Sugar sector from August 2014 to July 2016.</p> <p>With the introduction of IPSAS 41 (Financial Instruments) which require public sector institutions to apply single forward-looking credit loss model applicable to all financial instruments subject to impairment testing forced the Fund to revise its provision policy. Although the standard is effective from January 2022, Comfund opted for early adoption after realizing majority of its loans were impaired as a result of inherited non-performing loans from the previous funds.</p> <p>The high rate of provisioning arose as a result of change of the method of classification of loan account. This meant that as opposed to using the due date of the loan for purposes of</p>	Roseline Wambura Credit Manager	Not Resolved	Ongoing

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		<p>classification, the installment arrears would be used instead. To reduce the high rate of provisioning the Fund is continuously entering into repayment arrangements with the clients who have defaulted on their loans (<i>refer to annex 1.1 (a)</i>) which has sample loan repayment agreements) as well as continuing with recovery efforts if no provision is in place. For instance, between July 2017 and March 2021 the fund recovered Kshs. 25,100,896.36 from coffee intermediary loans which were issued between 2007 and 2013 (<i>refer to annex 1.1 (b)</i>). Loan recoveries are through issuance of demand letters and entering into repayment agreements.</p> <p>The Fund is unable to crystalize securities since its legal status is still in limbo thereby affecting the transfer of assets, liabilities and securities from the previous institutions (CODF and SDF). This coupled with AFA's lack of a Board in order to pursue amendments and or improvement in law to address the anomaly has made it difficult for the Fund to even seek for orders from court. The Fund pursued a loan owed by Kibos Sugar & Allied Industries that was disbursed by the former Kenya Sugar Board and the loanee took the Fund to court and the court ruled that Kibos Sugar had a prima facie case on challenging the corporate status of the Fund and its ability to pursue loan collection for the facility advanced to it by the Kenya Sugar Board. As such the court stayed any attempt by the Fund to enforce any process to realize the monies/loan until the court determines the matter. It however granted AFA the powers to pursue the client and collect the money by Dint of the legislation as it stands.</p> <p>That said the Fund is aggressively through the ministry and the AG's office pursuing for amendments and development of a standalone Comfund legislation with the hope of ensuring the Fund has a sound legislative platform upon which it can enforce its contracts and or seek orders and directions from the judicial system.</p>		
	1.2 Non-performing Loans			Ongoing

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<p>The statement of financial position reflects long term receivables from exchange transactions – loans and advances totalling to Kshs. 214,474,000 and as disclosed under note 16(iv) to the financial statements. The gross loans and advances amounted to Kshs. 16,503,648,000 which differed with the regions outstanding loans amounting to Kshs. 19,191,900,315 resulting to unexplained variance of Kshs. 2,688,252,315.</p> <p>Site visit to sampled regional offices showed that significant amount of loans disbursed to the clients in the area covered by the branch are overdue and non performing. The management has not disclosed nonperforming loans and which are material enough to affect the going concern of the fund.</p>	<p>The provisioning of the receivables is high due to change of the method of classification of loan accounts from using the due date of the loan for purposes of classification to installment in arrears. In addition, with the introduction of IPSAS 41 (Financial Instruments) which require public sector institutions to apply single forward looking credit loss model applicable to all financial instruments subject to impairment testing forced the Fund to revise its provision policy. Although the standard is effective from January 2022, Comfund opted for early adoption after realizing majority of its loans were impaired as a result of inherited non-performing loans from the previous funds.</p> <p>The Board approved the set-up of a debt recovery unit in the month of December 2020 to assist in the recovery of the loans in arrears. The overall objective of the unit is to identify, evaluate and monitor the non-performing loan accounts and implement a recovery action plan to achieve timely and maximum recovery at a minimal cost and appropriate turnaround time. The unit is responsible for handling a portfolio of delinquent loan facilities whose first, second and final demand notices have lapsed with the objective of putting in place and adopting appropriate strategies within policy guidelines and regulation to minimize credit losses. The unit is also engaging each of the intermediaries so as to establish working relationships so as to enhance loan recovery.</p> <p>The impact of Covid-19 affected the income streams of a number of loanees since the monthly installments were being made from other sources of income (Refer to annex 1.2(a) – examples of requests for loan rescheduling from Sakami Ranches and Finware).</p> <p>The Special Fund's Committee in their 6th report on the audited financial statements for the Commodities Fund dated October 2019 resolved on page 32 (Extract attached as annex 1.2(b)) as follows:</p>	<p>Roseline Wambura Credit Manager</p>	<p>Not Resolved</p>																												
<table border="1"> <thead> <tr> <th></th> <th>Amount Advanced</th> <th>Total Outstanding</th> <th>Total Overdue</th> </tr> </thead> <tbody> <tr> <td>Nakuru</td> <td>64,865,878.00</td> <td>48,720,932.45</td> <td>47,215.7</td> </tr> <tr> <td>Kisumu</td> <td>16,825,539,534.20</td> <td>18,901,620,139.21</td> <td>18,197,684.2</td> </tr> <tr> <td>Kericho</td> <td>489,226,980.89</td> <td>108,360,681.44</td> <td>94,500.7</td> </tr> <tr> <td>Eldoret</td> <td>246,410,379.33</td> <td>133,198,561.50</td> <td>97,360.3</td> </tr> <tr> <td>Total</td> <td>17,626,042,772.42</td> <td>19,191,900,314.60</td> <td>18,436,761.0</td> </tr> <tr> <td colspan="4">Portfolio At Risk(PAR)</td> </tr> </tbody> </table> <p>Further, the provisioning of receivables is very high and casts doubt on the seriousness of the entity on borrower/farmer rating/appraisal process and security of the loans/advances. Consequently, the legality, accuracy and completeness of the long term receivables from exchange transactions – loans and advances totalling to Kshs. 214,474,000 cannot be confirmed.</p>		Amount Advanced	Total Outstanding	Total Overdue	Nakuru	64,865,878.00	48,720,932.45	47,215.7	Kisumu	16,825,539,534.20	18,901,620,139.21	18,197,684.2	Kericho	489,226,980.89	108,360,681.44	94,500.7	Eldoret	246,410,379.33	133,198,561.50	97,360.3	Total	17,626,042,772.42	19,191,900,314.60	18,436,761.0	Portfolio At Risk(PAR)						
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Portfolio At Risk(PAR)																															

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		<p>i) The Board of Trustees, Commodities Fund in consultation with the Parent Ministry and approval by the Cabinet Secretary National Treasury, consider writing off loans advanced to Public Mills and Outgrowers that were inherited by Commodities Fund based on their low recoverability in accordance to Section 69 of the Public Finance Management Act, 2012; and</p> <p>ii) The Cabinet Secretary Ministry of Agriculture, Livestock, Fisheries and Irrigation ensures that the Hand Over of Assets and Liabilities to Commodities Fund from Agriculture and Food Authority is completed in a lawful manner within three months of adoption of their report by the House.</p> <p>The Report of The National Sugar Task Force dated April 2019 recommends:</p> <ul style="list-style-type: none"> • Financial restructuring of public owned mills as approved by parliament in 2013; • Debt write off of additional factories' debt from July 2009 to date; <p>In a statement by Hon. Peter Munya, MCH, Cabinet Secretary, Ministry of Agriculture, Livestock, Fisheries and Co-operatives on 2nd July 2020 the Press were advised that the Ministry has embarked on extensive and intensive reform efforts to address challenges to create a high-value sugar sector. Among the measures the government has undertaken are the following:</p>			
		<p>i) Implementation of the Sugar Task Force Report recommendations;</p> <p>ii) Gazetteing of the Sugar General Regulations</p> <p>iii) Gazettement of the Import-Export Regulations that are currently with the Attorney General's office</p> <p>iv) Writing off Debts of State-owned Mills and Outgrower Institutions</p> <p>v) Conversion from Weight to Quality cane payment system based on sucrose content</p>			

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	<p>vi) Privatization of the State-owned Mills through a long-term lease Model</p>	
	<p>With respect to debt write-off to make factories attractive to leaseholders, the Cabinet has approved as follows:</p>	
<ul style="list-style-type: none"> • All debt owed to Government and the former Kenya Sugar Board/Commodities Fund as at 31st December 2019; • All Growers' debts owed to the former Kenya Sugar Board/Commodities Fund as at 31st December 2019; • All tax penalties and related interest accrued as at 30th June 2009, and any additional interest and penalties that have accrued since then. 		
	<p>This initiative will result in over 70% of the Fund's Sugar debt portfolio being written off. The Fund wrote to the Parent Ministry seeking the necessary approvals from the National Treasury but feedback is yet to be received. In addition, the deadline for handover exercise as directed by the Special Funds Committee lapsed in January 2020 and AFA is yet to finalize the handover.</p>	
	<p>Further the Fund is unable to crystallize coffee securities since its legal status is still in limbo thereby affecting the transfer of assets, liabilities and securities from the previous institutions (CODF and SDF). This coupled with AFA's lack of a Board in order to pursue amendments and or improvement in law to address the anomaly has made it difficult for the Fund to even seek for orders from court. The Fund pursued a loan owed by Kibos Sugar & Allied Industries that was disbursed by the former Kenya Sugar Board and the loanee took the Fund to court and the court ruled that Kibos Sugar had a prima facie case on challenging the corporate status of the Fund and its ability to pursue loan collection for the facility advanced to it by the Kenya Sugar Board. As such the court stayed any attempt by the Fund to enforce any process to realize the monies/loan until the court determines the matter. It however granted AFA the powers to pursue the client and collect the money by Dint of the legislation as it stands.</p>	

**Commodities Fund
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	<p>1.3 Unsecured Loans to Intermediaries/Expired Loan Agency Agreements</p> <p>The statement of financial position reflects long term receivables from exchange transactions –loans and advances totalling to Kshs. 214,474,000 and as disclosed under note 16(iv) to the financial statements. Review of loans data disbursed through intermediaries showed that the fund held a total of Kshs. 18,875,168,259.99 in arrears. This loans were issued to farmers by intermediaries on behalf of the fund where loan agency agreements were signed between the fund and the intermediaries without any other security or collateral attached to the fund. However, it was observed that these agreements held by the fund are not valid and that there is no existing collateral to cushion the fund against default. There is risk of losing the outstanding amounts secured by the lapsed agency agreements and tripartite agreements.</p>	<p>The coffee intermediary loans were inherited from the former Coffee Development Fund. With respect to coffee the loans to SACCO's from Commodities Fund are currently being secured by bank guarantee to safeguard against loss. The Fund has further engaged the coffee marketers to facilitate follow up and remittance of loans to societies secured by tripartites.</p> <p>The Board approved the set-up of a debt recovery unit in the month of December 2020 to assist in the recovery of the loans in arrears. The overall objective of the unit is to identify, evaluate and monitor the non-performing loan accounts and implement a recovery action plan to achieve timely and maximum recovery at a minimal cost and appropriate turn-around time. The unit is responsible for handling a portfolio of delinquent loan facilities whose first, second and final demand notices have lapsed with the objective of putting in place and adopting appropriate strategies within policy guidelines and regulation to minimize credit losses. The unit is also engaging each of the intermediaries so as to identifying the underlying issues and come up with custom-made solutions aimed at establish working relationships so as to enhance loan recovery.</p> <p>The exercise is ongoing and so far Embu Farmers Sacco Ltd, Kirinyaga District Farmers Sacco, Meru Central Farmers Sacco Ltd, Meru South Farmers Sacco, K- Rep Fedha Services – Nunguni FSA and K- Rep Fedha Services – Kikima FSA have already expressed willingness to continue working with the Fund towards recovery of the outstanding debts. The Fund has opted to deal directly with the societies under the teacher based saccos to recover the amounts due since the teacher based saccos have indicated that coffee farmers are not their main clientele.</p>	<p>Roseline Wambura Credit Manager</p>	<p>Not Resolved</p>	<p>End of the FY 2021/22</p>
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**Commodities Fund
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		<p>The Fund is yet to be handed over the security instruments for the sugar loans by AFA since the handover of assets and liabilities of the former sugar development fund is yet to be finalized.</p>		
<p>1.4 Un Reconciled Inter Corporation Transaction Between AFC and Commodity Fund</p> <p>The statement of financial position and as disclosed under note 16(iv) reflects Kshs. 217,264,000,000 on long term receivables from loans and advances. Included in this balance is a figure of Kshs. 1,153,289,952.11 that relates to receivable from Agriculture Finance Corporation comprising of Kshs. 1,101,581,612 and Kshs. 51,699,340.11 for Sugar and Coffee loans respectively. However, confirmation of records from AFC reflects that the entity owes the fund Kshs. 9,515,756.12 resulting to un-reconciled balance of Kshs. 1,143,765,195.99.</p> <p>Consequently, the legality, accuracy and completeness of the long term receivables from exchange transactions – loans and advances totaling to Kshs. 214,474,000 cannot be confirmed.</p>	<p>The amounts in the Fund's financial statements where inherited from the former coffee and sugar development funds. The handover exercise of the assets and liabilities of the Sugar Development Fund has not been finalized by AFA. The exercise was supposed to be finalized within six months from March 2019. Among the handover items was the Kenya Sugar Board/Agriculture Finance Corporation Agency Lending Agreement report on the status of the project.</p> <p>The Fund has made several requests to both AFA and the Parent Ministry for the handover exercise to be finalized as evidenced by the correspondences attached as annex 1.4 (a) but without tangible results. This makes it difficult for the Fund to follow-up on the loanees without the list of beneficiaries and status report on the handover of the agency agreement. With respect to the AFC Coffee loans, AFC was an agent/intermediary and the farmer the borrower of the Funds. The Fund is following up with AFC to confirm in writing on the amounts collected and not remitted to the Fund with respect to the Coffee loans.</p>	<p>Roseline Wambura Credit Manager</p>	<p>Not Resolved</p> <p>End of the FY 2021/22</p>	
<p>2. Unrecovered Amounts Transferred to the Ministry of Agriculture, Livestock and Fisheries.</p> <p>The statement of financial position reflects receivables from non-exchange transactions of Kshs. 46,055,000 and as disclosed under note 17 to the financial statements which includes Kshs. 40,000,000 funds transferred to the parent ministry in the financial year 2016/2017. According to memos Ref: MOA/SDA/SC/40A dated 18 January, 2017 and Ref: MOALF/CORP/11/23/2 of 9 May, 2017, the ministry was to reimburse this funds once treasury releases its</p>	<p>We acknowledge the Parent Ministry of Agriculture, livestock fisheries and Co-operatives requested the transfer of the said Fund through Memo Ref: MOA/SDA/SC/40A dated 18 January, 2017 and Ref: MOALF/CORP/11/23/2 of 9 May, 2017. The Ministry through the two memos had promised to refund the funds once the National Treasury releases its budgeted funds. Unfortunately this has not happened despite the Fund writing numerous demand letters and holding meetings with the ministry officials.</p>	<p>Nancy Cheruiyot Managing Trustee</p>	<p>Not Resolved</p> <p>Ongoing</p>	

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	<p>budgeted funds. The ministry failed to reimburse these disbursements to the Fund. In the circumstances, the accuracy and completeness of the receivables from no-n exchange transactions of Kshs. 46,055,000 cannot be confirmed.</p>	<p>The Fund met the Special Fund Committee of the National assembly in May 2019 where the Ministry was reprimanded to write commitment letter to Commodities Fund indicating when the funds will be refunded. This has not happened to date. The Board of Trustees will soon seek the invention of the Cabinet Secretary since discussions with the Principal Secretary have not been fruitful.</p>	
<p>2. Trade and Other Payables from Exchange Transactions (Creditors and Accruals)</p>	<p>3.1 Unidentified Loan Repayments- Payment Received in Advance The statement of financial position reflects trade and other payables from exchange transactions (creditors and accruals) totaling to Kshs.24,391,000 and as disclosed under note 21 to the financial statements which includes payments received in advance of Kshs. 10,643,000. Included is Kshs. 5,527,735 being unidentified loan repayments which are received by the entity but cannot be linked to specific borrower/farmer accounts. Further, supporting schedules indicate that the amount is a cumulative figure from the year 2011 - 2020. The entity has not amended its internal control measures to include preventive mechanisms to mitigate against non-identification of recipient loan accounts at the point of repayment. Consequently, the completeness and accuracy of the trade and other payables from exchange transactions (creditors and accruals) totaling to Kshs. 24,391,000 cannot be confirmed.</p>	<p>The Fund acknowledges that it held a total of Kshs. 5,527,725 on account of unidentified deposits. The Fund has in recent times worked very closely with the bank to identify and put measures that would stop further deposits without adequate identification details. One of the control measures agreed with the bank was to have telephone number of the depositor captured in the bank statement alongside Loan Number. This has helped the Fund to significantly reduce incidences of unidentified funds. However, due to few cases we continue getting from time to time we have engaged the bank and agreed all our accounts will be configured to reject funds that do not indicate the telephone number and loan number of the borrower. This will be operational by Friday 30th April 2021.</p>	<p>Finance Manager Resolved</p>
<p>3.2 Overpaid Loans</p>	<p>The statement of financial position reflects trade and other payables from exchange transactions (creditors</p>	<p>The Management acknowledges the coffee overpayment of Kshs. 5,115,510.00 which has come about as a result loan</p>	<p>Resolved</p>

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<p>and accruals) totalling to Kshs. 24,391,000 and as disclosed under note 21 to the financial statements which includes payments received in advance of Kshs. 10,643,000 which includes overpayment on loans and advances of Kshs. 5,115,510 which cannot be traced to individual farmers. No explanation was provided for non-reconciliation of long outstanding farmers' accounts.</p> <p>Consequently, the completeness and accuracy of the trade and other payables from exchange transactions (creditors and accruals) totalling to Kshs. 24,391,000 cannot be confirmed.</p>	<p>repayment made in excess of the outstanding amounts due to most of the loans were repaid through the intermediaries as per the intermediary records. The intermediary forwarded the repayments to Comfund and the same received in our system thereby the balances paid and balance outstanding in the system reflected an overpayment.</p> <p>This report has been extracted from the farmers and intermediary statements and the Fund is in the process of refunding the same. These overpayments can be traced in the farmers' statements a sample of which is in annex 3.2 (a).</p>	<p>Roseline Wambura Credit Manager</p>	
<p>4. Unconfirmed Expenditure on Maintenance and Upgrade of Microsoft dynamics Navision ERP</p> <p>The statement of financial performance for the year ended reflects expenditures under repair and maintenance of Kshs. 10,685,000.00 and as disclosed under note 12 to the financial statements. Included in this figure is an annual software renewal and support fee of Kshs. 4,535,734.00 (invoice no PI04828) paid to a vendor. The following issues were observed;</p> <ol style="list-style-type: none"> i. The entity has not upgraded its ERP to the latest available version; Microsoft Dynamics Nav 2018 in spite of contractual obligations by the service provider; and a total of Kshs.2 Million mandatory payment for BREP subscriptions as outlined in the contract, ii. Corresponding receipts from the vendor (Microsoft) for payment of annual subscriptions were not provided for audit during the exercise, iii. The entity is using a previous version of the Navision ERP which is less suited for its present need and prone to internet vulnerabilities, 	<p>Management have retrieved the payment receipts, for the total amount of Kshs. 4,535,734 paid to vendor for annual licenses and support as well as BREP subscription. Copies of receipts are attached as appendix 4.</p> <p>Further, management noted your concern that the ERP Microsoft Dynamics Nav version 2017 is noted upgraded to version 2018. Management wishes to clarify that difference between the two versions of Microsoft Dynamics Nav is minimal and the current version 2017 used in Commodities Fund is sufficient for its business. The Fund will not hesitate to upgrade to higher version when major releases that may bring significant improvement in the way the system work are released.</p>	<p>Solomon Kirwa ICT Manager</p>	
<p>Other Matters</p>			<p>1. Ineffective Debt Recovery</p>

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<p>As disclosed in the previous year, the statement of financial performance reflects general expenses totalling Kshs. 9,197,022,000 and which include provision for bad debts of Kshs. 9,113,574,000 for the year ended 30th June 2019 and as disclosed under note 13 to the financial statements. Although the loan balances have been outstanding for a long time, and the provision was made as per the Fund's policy no meaningful effort appear to have been made towards full recovery of the loan balances.</p>	<p>The Sugar loans inherited from the former Sugar Development Fund forms the bulk of the non-performing loans. The handover of the assets and liabilities which include security instruments are yet to be finalized as evidenced by the fund's various requests to the Parent Ministry and AFA. Despite these challenges the fund is following up with the loanes on loan repayment. In the financial year 2019-2020 the Fund recovered Kshs. 191,877,154.65 from Coffee loanes and Kshs. 286,902,397.60 from Sugar loanee. In the current financial year 2020-2021 the Fund has so far recovered Kshs. 337,947,352.41 from coffee loanes (Refer to Annex 1(a)) and Kshs. 325,953,754.96 from Sugar loanes (Refer to Annex 1(b)) which shows a marked improvement from the previous financial year.</p> <p>In addition, in the current financial year the Board approved the establishment of a Debt Recovery Unit to enhance debt recovery. The overall objective of the unit is to identify, evaluate and monitor the non-performing loan accounts and implement a recovery action plan to achieve timely and maximum recovery at a minimal cost and appropriate turnaround time. The is responsible for handling a portfolio of delinquent loan facilities whose first, second and final demand notices have lapsed with the objective of putting in place and adopting appropriate strategies within policy guidelines and regulation to minimize credit losses.</p> <p>The key functions of the unit are:</p> <ol style="list-style-type: none"> Monitor allocated portfolio of delinquent loans facilities to determine reasons for delinquency by application of sound credit judgment, collections strategy and process within pre-determined broad policy guidelines and regulation to minimize credit losses. Maintain and prepare monthly collections reports, updates and status. Streamline the recovery process 	<p>Roseline Wambura Credit Manager</p>	<p>Not Resolved</p>	<p>Ongoing</p>
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	<p>d) Undertake regular and frequent calls, site visits, and follow-ups with the Credit Officers to implement remedial strategies and action plans for loan recovery.</p> <p>e) Coordinate the issuance of reminder letters and demand notices to the defaulting clients by the regional offices and review all credit files for proper documentation and monitoring.</p> <p>f) Prepare and implement strategies to turn around non-performing debts based on strong negotiations and debt restructuring.</p> <p>g) Working in liaison with the regional offices in preparation of approval requests to management for debt restructuring and negotiated settlements of the defaulted credit facilities.</p> <p>h) Work closely with regional offices providing feedback, pointing out red flags and weakness as well as providing clear and prompt remedies to the weakness identified to reduce/eliminate cases for default.</p> <p>i) Ensure proper documentation of all follow up strategies adopted and agreed with the debtors ensuring continuous monitoring and tracking.</p> <p>j) Planning, organizing and collaborating with service providers particularly lawyers, auctioneers, valuers, investigators, external debt collectors and collateral managers in the recovery journey.</p>		
<p>Other Matters</p> <p>2. Budget and Budgetary Controls</p>	<p>2.1 Under collection of Revenue</p> <p>During the financial year ended 30 June 2020, Commodities Fund had an approved budget of Kshs 598,622,000 for operating revenue from exchange transactions. The Statement of financial performance reflected a total of Kshs.491,600,000 as revenue realized during the financial year resulting to under collection of Kshs.106,569,000(18%). Further there was revenue reduction of Kshs.57,816,000(11%) from previous revenue collected of Kshs.549,869,000 . No explanation was provided for revenue drop and none achievement of revenue budget.</p>	<p>It is true Commodities Fund had an approved budget of Kshs 598,622,000 for operating revenue from exchange transactions. Revenue realized during the year amounted to Kshs. 491,600,000 resulting to under collection of Kshs.106,569,000(18%). This drop was attributed to poor loan performance more from the sugar sector. You will note that interest income from loans formed 82% of the targeted revenue but the actual result was 66% which shows a shortfall of 16%. Further, in 2018/2019 the Fund adopted a more stringent policy which provides for freezing of loan interest five years after due dates.</p>	<p>Resolved</p> <p>Finance Manager</p>

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	<p>1.1 Under-Absorption of Capital and Operating Expenditure Budget</p> <p>The statement of comparison of budget and actual amounts reflects final budget of Kshs.584,704,000 against actual expenditure of Kshs.562,595,000 resulting to overall under expenditure of Kshs.22,109,000. Examination of individual expenditure items reflects an under expenditure of 72,904,000 as detailed below:</p>	<p>Further, government has not been able to privatize public sugar mills and majority of borrowers have slowed in loan repayment awaiting privatization of mills a process that was promising to write off loans.</p>	<p>Finance Manager</p>	<p>resolved</p>																																																																					
<table border="1"> <thead> <tr> <th>Audit Components</th> <th>Final Budget</th> <th>Actual Comparable Basis</th> <th>Performance Difference</th> <th>% change</th> </tr> </thead> <tbody> <tr> <td>Expenses</td> <td>Kshs. 000</td> <td>Kshs.000</td> <td>Kshs.000</td> <td></td> </tr> <tr> <td>Compensation to Employees</td> <td>124713</td> <td>86,608</td> <td>38,105</td> <td>31</td> </tr> <tr> <td>Goods and Services</td> <td>8553</td> <td>5059</td> <td>3,494</td> <td>41</td> </tr> <tr> <td>Rent Expenses</td> <td>12,137</td> <td>11,604</td> <td>533</td> <td>4</td> </tr> <tr> <td>Board Expenses</td> <td>24,604</td> <td>17,738</td> <td>6,866</td> <td>28</td> </tr> <tr> <td>Corporate Communication</td> <td>12,009</td> <td>11,285</td> <td>724</td> <td>6</td> </tr> <tr> <td>Audit Expenses</td> <td>4,544</td> <td>2,897</td> <td>1,647</td> <td>36</td> </tr> <tr> <td>Finance and Administration Costs</td> <td>47,012</td> <td>36,821</td> <td>10,191</td> <td>22</td> </tr> <tr> <td>Repairs and Maintenance costs</td> <td>12,972</td> <td>10,686</td> <td>2,286</td> <td>18</td> </tr> </tbody> </table>	Audit Components	Final Budget	Actual Comparable Basis	Performance Difference	% change	Expenses	Kshs. 000	Kshs.000	Kshs.000		Compensation to Employees	124713	86,608	38,105	31	Goods and Services	8553	5059	3,494	41	Rent Expenses	12,137	11,604	533	4	Board Expenses	24,604	17,738	6,866	28	Corporate Communication	12,009	11,285	724	6	Audit Expenses	4,544	2,897	1,647	36	Finance and Administration Costs	47,012	36,821	10,191	22	Repairs and Maintenance costs	12,972	10,686	2,286	18	<p>It is true the Fund had total approved budget of Kshs.584,704,000 and utilized a total of Kshs.562,595,000 during the year under review. However, when the expenditure items are reviewed on individual basis an overall under absorption of Kshs.72,904 million was realized which is explained as follows:</p> <table border="1"> <thead> <tr> <th>Audit Components</th> <th>Final Budget</th> <th>Actual Comparable Basis</th> <th>Performance Difference</th> <th>% change</th> <th>Explanations</th> </tr> </thead> <tbody> <tr> <td>Expenses</td> <td>Kshs. 000</td> <td>Kshs.0 00</td> <td>Kshs.000</td> <td></td> <td></td> </tr> <tr> <td>Compensation to Employees</td> <td>124713</td> <td>86,608</td> <td>38,105</td> <td>31</td> <td>The Fund had budgeted to employ 13 additional staff and to harmonize staff salary. Unfortunately, approvals from government were granted in the year and a big portion of the budget could not be spent.</td> </tr> </tbody> </table>	Audit Components	Final Budget	Actual Comparable Basis	Performance Difference	% change	Explanations	Expenses	Kshs. 000	Kshs.0 00	Kshs.000			Compensation to Employees	124713	86,608	38,105	31	The Fund had budgeted to employ 13 additional staff and to harmonize staff salary. Unfortunately, approvals from government were granted in the year and a big portion of the budget could not be spent.				
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Depreciation Costs	25,921	16,863	9,058	35	
Total Expenses	272,465	199,561	72,904	27	
<p>Credit and Field Expenses had a budget of Kshs.292,509,000 against actual expenditure of Kshs.343177000 resulting to unapproved over expenditure amounting to Kshs.50,668,000 (17%).</p> <p>Further, Capital budget totaling to Kshs.26,690,000 with actual capital expenses amounting to Kshs.8,927,000 was omitted from the statement.</p> <p>Consequently, Budget and budgetary controls were not adhered to.</p>					
Goods and Services	8553	5059	3,494	41	Non-employment of budgeted staff and emergence of Covid slowed utilization of funds
Rent Expenses	12,137	11,604	533	4	The Fund had projected to open additional office after employment of new employees which did not happen
Board Expenses	24,604	17,738	6,866	28	Savings made as a result of zoom meetings thus saving on accommodation and travel cost. Further, board trainings and conferences were not held due to Covid-19 hence the savings
Corporate Communication	12,009	11,285	724	6	The underutilization noted was as a result slowed activities after emergence of Covid-19.
Audit Expenses	4,544	2,897	1,647	36	The underutilization noted was as a result slowed activities after emergence of Covid-19. Planned risk activities and

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<p>REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES</p>	<p>1. Employee Costs 1.1 Failure to Comply with National Cohesion and Integration Commission Act On Ethnicity Balance The statement of financial performance reflects employee costs amounting to Kshs. 96,085,000 and as reflected under note 9 to the financial statements. This figure includes Kshs. 70,120,083 paid to the fifty-six regular employees of the organization. A review of the fund staff list revealed that the organization ethnicity distribution is as follows:-</p> <table border="1" data-bbox="750 1265 1005 1881"> <thead> <tr> <th>Ethnic</th> <th>No</th> <th>Ethnic</th> <th>No.</th> <th>Ethnic</th> <th>No.</th> </tr> </thead> <tbody> <tr> <td>Kikuyu</td> <td>8</td> <td>Luo</td> <td>3</td> <td>Borana</td> <td></td> </tr> <tr> <td>Luyha</td> <td>5</td> <td>Kalenjin</td> <td>20</td> <td>Masai</td> <td></td> </tr> <tr> <td>Kambas</td> <td>4</td> <td>Kisii</td> <td>7</td> <td>Chonyi</td> <td></td> </tr> <tr> <td>Meru</td> <td>3</td> <td>Embu</td> <td>3</td> <td></td> <td></td> </tr> <tr> <td>56</td> <td>20</td> <td></td> <td>33</td> <td></td> <td></td> </tr> </tbody> </table> <p>However, it was noted the representation of the Kalenjin community was more than the one third of the stipulated threshold contrary to the provision of section 7 of the National Cohesion and Integration Commission act No 12 of 2008.</p>	Ethnic	No	Ethnic	No.	Ethnic	No.	Kikuyu	8	Luo	3	Borana		Luyha	5	Kalenjin	20	Masai		Kambas	4	Kisii	7	Chonyi		Meru	3	Embu	3			56	20		33			<p>The capital expenditure of Kshs.8,927,000 against a budget of Kshs.26,690,000 was not included in the from the statement comparison of budget and actual as was not provided for in the reporting template.</p>	<p>Nancy Cheruiyot Managing Trustee</p>	<p>Resolved</p>
Ethnic	No	Ethnic	No.	Ethnic	No.																																			
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	<p>Commodities Fund promotes equal employment opportunities and management is committed to progressively ensure ethnic representation and balance on recruitment of new employee and replacement of existing ones. The Fund has a representation of 11 communities despite the few staff numbers. The last recruitment of 13 employees saw a representation of 9 communities. The current position has also been disclosed annually as we report to the Public Service Commission on Compliance with the Values and Principles in Articles 10 and 232 of the Constitutions with an undertaking to progressively ensure that as many of the 48 communities are represented as per the PSC evaluations. This, management undertakes to do through open and fair advertisement, shortlisting, interviewing and placement for new and replacement positions as well as applying affirmative action in order to comply with the various statutory requirements including compliance with the provision of section 7 of the National Cohesion and Integration Commission act No 12 of 2008</p>																																							
	<p>1.2 Un-approved Remuneration Structure The statement of financial performance reflects employee costs amounting to Kshs.96,085,000 and as reflected under note 9 to the financial statements. During the year under review, it was observed that the</p>	<p>The last SRC job evaluation exercise coincided with the period that the Crops Act came into effect hence the formation of Commodities Fund. Being a transition period, the Fund</p>																																						

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<p>corporation was using salary structure and scale on payment of its employees' salaries and allowances which was not approved by Salaries and Remuneration Commission contrary to Article 230(4) (b) of the Constitution which provides that the powers and functions of the Salaries and Remuneration Commission among others shall be to advise the national and county governments on the remuneration and benefits of all other public officers.</p>	<p>did not take part in the Job Evaluation Exercise at that time and therefore continued using the structure of the then Coffee Development Fund pending the approvals of its own documents. The proposed organization structure, Career Guidelines and Salary Structure were developed in consultation with the Department of Public Service Management (DPSM) in year 2018, and the same approved internally by the Board of Trustees. The documents have since been forwarded to the parent ministry as well as SCAC for approval. The Fund is now participating in the ongoing SRC Job Evaluation Exercise and management shared the Job Description Manual, Organization Structure and Career guidelines with SRC in January 2021 for purposes of evaluation and development of a salary structure for Commodities Fund.</p>	<p>Nancy Cheruiyot Managing Trustee</p>	<p>Not resolved</p>	<p>Ongoing</p>
<p>1. Irregular Appointment of Board Members- Remuneration of Trustees</p> <p>The statement of financial performance reflects remuneration to trustees of Ksh.17,738,000 and as disclosed under note 10 to the financial statements. Included is an amount of Ksh.4,280,000(<i>See Appendix iii</i>) paid to six members of the board of trustees and ministry representatives who were appointment by the CS without appointment letters contrary to the requirements of OP circular No. OP/SCAC.9/73A (48) dated 4 May 2015. Without the appointment letter, the appointment of the four board members is not regular and their accountability to the organization may not be enforceable. Consequently, there was non-compliance with the office of the president circular No. OP/SCAC./9/73A (48) dated 4th May, 2015.</p>	<p>i. The Fund is alive for the need to have appointment letters as part of the board members appointment. However, we also recognize that this is an administrative process that is undertaken by the Ministry through the Cabinet secretary, we have done our bit on the follow up but legally are aware that gazette appointment supersedes directives in terms of administrative appointment. One cannot be a board members by virtue of an appointment letter in a government institution. However, one is legally and rightfully a board member by virtue of gazettement hence the enforcement of liability even in the absence of an appointment letter before court.</p> <p>ii. Secondly, it is our humble and considered opinion that the Ministry representatives as per law are the relevant PS. As such it is the position and not the person seconded to the board, this is because the people sitting at the Board are alternates and could be seconded or withdrawn by the PS hence gazettement not being a requisite.</p>	<p>Nancy Cheruiyot Managing Trustee</p>	<p>Resolved</p>	

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<p>REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS RISK MANAGEMENT</p>	<p>1.0 Laxity in implementation of Off-site Back-up</p> <p>The statement of financial performance for the year ended reflects expenditures under repair and maintenance of Kshs.10,685,000.00 and as disclosed under note 12 to the financial statements. Included in this figure is an annual software renewal and support fee of Kshs.4,535,734.00 (invoice no P104828) paid to a vendor.</p> <p>An analysis of ICT related expenditure on computer hardware and software as per the approved budget and trial balance submitted during the audit revealed that the entity had an approved capital budget of Kshs.10,000,000 for acquisition of EDMS software, ICT hardware, software innovations, security back-up, and additional server. Further, Kshs.3,442,000 was budgeted for repair and maintenance of office computers and equipment and Kshs.5,378,000 for renewal of ICT software. Comparatively, Kshs.4,353,990 was spent on additions to computers and electronic equipment; and Kshs.613,000 on software additions. Site visit to the offsite back up location in Nakuru on March 22, 2021 revealed: -</p> <ol style="list-style-type: none"> i. The offsite back-up server was placed in an open area wherein the stipulated requirements for physical access and environmental conditions for server installations including manufacturers design temperature and humidity conditions cannot be implemented, ii. Security Parameters governing access to the server are not defined and do not meet the minimum standards implemented at the head office, iii. The server is placed in an open area with no controlled access, iv. The building in which the server is located does not belong to the entity, 	<p>Management will move to secure the existing offsite facility and bring it to the standards defined by the ICT authority.</p>	<p>Solomon Kirwa ICT Manager</p>	<p>Not Resolved</p>	<p>Ongoing</p>
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	<p>Access to the server is not monitored and physical access logs are not maintained. In the circumstances, the risks loss of valuable sensitive data and the offsite servers are prone to theft and unwarranted destruction.</p>				
<p>2.0 IT Internal Control Weaknesses –IT Governance</p> <p>During the year, the Fund had the following IT internal control weaknesses:-</p> <ol style="list-style-type: none"> The authority has not instituted an IT strategic committee The entity has not established an IT steering committee, The entity did not undertake any trainings of ICT Staff during the audit period, Similarly, no fire extinguishers have been installed in the Eldoret and Nakuru Branches; the entity relies on extinguishers installed by the building owners to which they have no control of maintenance, The fund has LAN installed in their regional offices. However, a visit to the sampled regions revealed that some of this offices were not using the LAN for internet connectivity since officers were not aware about the functionality. In case of downtime with WIFI, officers have to wait for resumption of WIFI so as to be able to access and use the system. The audit observed 5 computers (Coded 000474; 000005. 000024,000022) with no UPS Back-ups. All desktops computers at the Nakuru and Eldoret Branches have no power backups installed. No proper training and sensitization ICT functionality Lack of continuous training in ICT hinders the ability of Entity to benefit from ICT solution in achieving its Mandate. 	<p>The audit observed the following IT internal control weaknesses: -</p> <ol style="list-style-type: none"> The authority has not instituted an IT strategic committee <ul style="list-style-type: none"> ➤ <i>A committee has been instituted this financial year</i> The entity has not established an IT steering committee, <ul style="list-style-type: none"> ➤ <i>An IT steering committee is already established</i> The entity has not established a formal, documented IT and organization-wide disaster management protocols and tested the same in the event of disaster. <ul style="list-style-type: none"> ➤ <i>The entity has established a formal business continuity plan BCP which was developed together with enterprise risk plan. The ICT department also has disaster recovery plan but resources for implementation and testing has been the challenge in terms of budgeting.</i> Instances of use of personal emails by management level staff was observed, <ul style="list-style-type: none"> ➤ <i>This instances of personal emails have been occasioned by the pandemic period where at times staff cannot connect from their locations. Otherwise those with working smart phones are configured with exchange and can communicate from anywhere.</i> The entity did not undertake any trainings of ICT Staff during the audit period <ul style="list-style-type: none"> ➤ <i>Commodities Fund develops training plan every year and the staff are trained on courses they</i> 	<p>Solomon Kirwa ICT Manager</p>	<p>Resolved</p>		

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	<p>Consequently, there is no value for money for the management in investing in ICT and officers not utilizing the service.</p>	<p><i>propose and agreed with the supervisor and the head of human resources. ICT staff were part and parcel of this arrangement.</i></p>		
		<p>vi. The entity observed a fire extinguisher that was last serviced in 2014 at the Head Office. Similarly, no fire extinguishers have been installed in the Eldoret and Nakuru Branches; the entity relies on extinguishers installed by the building owners to which they have no control of maintenance.</p> <p>➤ <i>This was on oversight by both the management and staff whoa ere in-charge of the offices. This will be rectified in very near future.</i></p> <p>vii. The fund has LAN installed in their regional offices. However, a visit to the sampled regions revealed that some of this offices were not using the LAN for internet connectivity since officers were not aware about the functionality. In case of downtime with WIFI, officers have to wait for resumption of WIFI so as to be able to access and use the system.</p> <p>➤ <i>In future the ICT officers, will undertake training of the staff as they carry out maintenance and support services in regional offices.</i></p>		
<p>3.0 Functionality of the Board of Trustees. As disclosed in previous year, 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. 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. Consequently, the Fund's Board of Trustees ability to work independently and effectively in the</p>		<p>1. It is true that the Crops Act fails to explicitly break down the mandate of the Fund's Board of Trustees as well as its powers and responsibilities. However in interpreting the act, the Trustees are entrusted with ensuring the Fund's Mandate is met by virtue of the fact that they are Trustees or custodians for the Funds therein. According to the Laws of Trust, the Mandate of the Trustees is that akin to Guardianship with main responsibilities being investing and divesting the Funds as if they are acting as</p>	<p>Nancy Cheruiyot Managing Trustee</p>	<p>Resolved</p>

**Commodities Fund
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	<p>absence of clear on its mandate, powers and responsibilities is doubtful.</p> <p>The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standard requires 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.</p>	<p>the one bequeathing the authority in this case being the Government.</p> <p>2. Management does agree with the observation by the auditor that 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. Consequently, the Fund's Board of Trustees ability to work independently and effectively in the absence of clear on its mandate, powers and responsibilities is doubtful. However as per the laws of Trust, It would be prudent to give a wide interpretation to the word of the Law as per the Crops Act. As such, by virtue of the mention of the word trustees comes with the need to look at the Laws of Trustees as to the implementation of the board duties. However for clarity and avoidance of misinterpretation, it would be prudent to ensure that the mandate and corporate status of the Trustees is express and detailed either in law or the appointing instrument. That said. The Fund has attempted to pursue amendment to the Crops Act for purposes of addressing the gap. Further, the Fund has even come up with draft regulations with the hope of having them anchored under the Public Finance Management Act (as per the law) in a bid to remedy the anomaly.</p>	
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Nancy C. Cherniyot, FCCA
Managing Trustee

Date: 31/01/2022

Appendix 1: PROJECTS IMPLEMENTED BY THE COMFUND

Projects

Projects implemented and funded by the Comfund

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							

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

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Appendix 111: Acknowledgment of Receipt of Grants from GoK



Kenya Railways Headquarters, Block J 2nd Floor
 Waiyaki Road, Off Haria Salsasia Avenue
 P.O. BOX 12714 - 00200
 CITY SQUARE
 NAIROBI

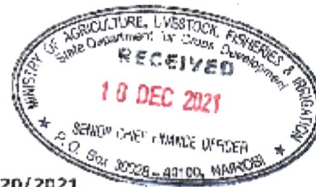
Phone: +254-20-2218800/9
 Mobile: 0724 002427/8
 0737 - 204275/0
 Fax: +254-20-2218810
 E-mail: info@ccf.co.ke
 Website: www.ccf.co.ke

Ref: C.F/FIN/Vol.13/3557

Date: 10th December, 2021

Principal Secretary
 State Department for Crops Development and Agricultural Research
 Ministry of Agriculture, Livestock, Fisheries and Co-operatives
 P. O. Box 30028 - 00100
 NAIROBI

Attention: CFO (Mr. Tobias Osano)



Dear Sir,

RE: DISBURSEMENT TO COMMODITIES FUND IN 2020/2021

The Commodities Fund confirms to have received **Kshs.30 million** for current and **Kshs 50 million** for Coconut Industry Revitalization Project in 2020/2021 broken down as follows:

DATE	RECUARENT SOURCE	AMOUNT
20/8/2020	STATE DEPT FOR CROP DEV AGRI RESEARCH	2,500,000
10/9/2020	STATE DEPT FOR CROP DEV AGRI RESEARCH	2,500,000
5/10/2020	STATE DEPT FOR CROP DEV AGRI RESEARCH	2,500,000
12/11/2020	STATE DEPT FOR CROP DEV AGRI RESEARCH	7,500,000
8/2/2021	STATE DEPT FOR CROP DEV AGRI RESEARCH	7,500,000
17/05/2021	STATE DEPT FOR CROP DEV AGRI RESEARCH	7,500,000
	DEVELOPMENT GRANT	
19/10/2020	STATE DEPT FOR CROP DEV AGRI RESEARCH	50,000,000

Yours faithfully

Nancy C. Cherulyot, FCCA
Managing Trustee

