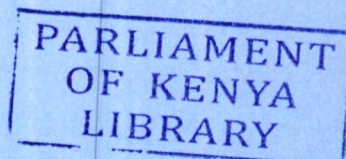


REPUBLIC OF KENYA



*Paper laid by the
Leader of majority party
MJP
25/7/2018.*

OFFICE OF THE AUDITOR-GENERAL



REPORT

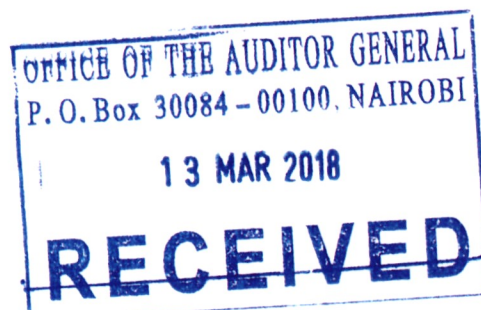
OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
COMMODITIES FUND**

**FOR THE YEAR ENDED
30 JUNE 2017**



Commodities Fund

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2017

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

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I. KEY FUND INFORMATION AND MANAGEMENT**(a) Background information**

The Commodities Fund (ComFund) is a State Corporation under the Ministry of Agriculture, Livestock and Fisheries. It was established under section 9(2) of the Crops Act of 2013 and rationalized on 1st August 2014. It is the successor of the Coffee Development Fund and the Sugar Development Fund.

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

During the period under review, the affairs of the Fund were partly run by the Management and Board of Trustees who come on board in the last quarter of the year. The Crops Act 2013, Section 9(3) states that the Fund shall be run by Board of Trustees, appointed by the Cabinet Secretary in charge of Ministry of Agriculture, Livestock and Fisheries. The Managing Trustee is the Secretary to the Board and Chief Executive Officer of the Fund. The Board is assisted by a management team headed by the Managing Trustee and departmental managers comprising of, the Credit Manager, Finance Manager, Legal Manager, ICT Manager, Internal Auditor, Human Resource Officer, the Supply Chain Officer and Corporate Communications Officer.

(b) Principal Activities

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

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

Core objectives of the Fund are:

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

(c) Key Management

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

- i) The Board of Trustees comprising of three committees namely; Finance, staff and General Purpose Committee, Credit Committee and Audit and Risk 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 sections.

The affairs of the Fund were run by the management team in the first three quarters of the year with the direction of the Ministry of Agriculture, Livestock and Fisheries. The Board of Trustees took charge of the Fund affairs in the last quarter of the year after it was constituted as required by the law

(d) Fiduciary Management

The Key management personnel who held office during the financial year ended 30th June 2017 and who had direct fiduciary responsibility were:

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

(e) Fiduciary Oversight Arrangements

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

i) Finance and Audit Activities

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

ii) Credit Administration

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

iii) Overall Supervision by the Board

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

(f) Fund Headquarters

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

(g) Fund Contacts

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

(h) Fund Bankers

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

(i) Independent Auditors

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

(j) Principal Legal Adviser

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

II. BOARD MEMBERS

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

3. Henry Huka Duba 	Mr. Henry H. Duba was born 11th November, 1961. He is a holder of Masters' in Public Health. His other qualification include: Higher Diploma in Community, Post-Graduate Certificate in Health Services Management, Diploma in Environmental Health Sciences, Certificate, Health Emergencies in Large Populations, Diploma in Public Health, Certificate, grants management. He is a Public Health and Nutrition specialist. He has over 18 years' experience in humanitarian services as Country Director, Chief of Party and Director of Food Security and Nutrition Programs. He is Managing grants of US\$ 50M (Ksh 5b).
4. Robert Mugambi Murithi 	Robert M. Murithi 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 got over twenty years' experience in development and investment finance within the East African region, having worked with East African Development Bank for the last eighteen years. He has vast experience and training in credit analysis and project monitoring and evaluation. He is currently an Advisory Board Member for Business Partners International Limited and a Limited Partner representative in Catalyst Fund LLC. He has previously served as a board member in several other companies within the East Africa region.
5. Eliud Mathu Kamau 	Mr. Eliud M. Kamau was born on 27th August, 1968. He is a holder of Master of Science in Agricultural and Applied Economics (Egerton University). He has twenty four (24) years' experience in Ministry of Agriculture, Livestock and Fisheries. He is an Assistant Director of Agriculture (Head/State Corporations' Unit, State Department of Agriculture).
6. Moses Macharia Gakuru	Moses M. Gakuru was born in 1959 and holds Masters in Business (Strategic Management), Bachelor's Degree in

	Business Administration, Diploma in Project Management and is CPA final. He is currently working as Chief Accountant at the National Treasury and has over 35 years work experience in Public Sector Financial Management Accounting and Reporting. He is a member of Institute of Certified Public Accountant of Kenya (ICPAK), Kenya Institute of Management (KIM) and Institute of Certified Investments & Financial Analysts (ICIFA).
7. Nancy Chelangat Cheruiyot 	• Area of Responsibility: Interim 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).

i) Board Committees

Name of the Committee	Members
Finance, Staff & General Purpose Committee	1. Mr. Henry Huka Duba, Chairperson 2. Ms. Purity Sein Karariet, Member 3. Mr. Eliud Mathu, Rep. PS, Ministry of Agriculture 4. Moses Macharia Gakuru, PS Rep, The National Treasury.
Credit Committee	1. Mr. Robert. M. Murithi, Chairperson 2. Prof. Eric Ogur, Member 3. Mr. Eliud Mathu, PS Rep, MoALF.
Audit and Governance Committee	1. Ms. Purity Sein Karariet, Chairperson 2. Prof. Eric Ogur, Member 3. Moses Macharia Gakuru, PS Rep, The National Treasury.

III. MANAGEMENT TEAM

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

Ms Nancy Chelangat Cheruiyot 	• Area of Responsibility: Interim 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).
Mr. Richard Omelu 	• Area of Responsibility: Credit. • Academic Qualification: Bachelor of Commerce in Finance, MBA Strategic Management (on-going). • Professional Qualification: Certificate in Corporate Governance, Credit Risk Certification Program.
Mr. Solomon Kirwa 	• 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.
4. Mr. Silas Nyaga 	• Area of Responsibility: Finance and Accounting. • Academic Qualification: MBA- Finance. • Bachelor of Commerce in Accounting. • Professional Qualification: CPA (K), CPS.

Ms. Florence Kipruto 	• Area of Responsibility: Human Resources & Administration. • Academic Qualification: Bachelor in Business Management (HRM) • Professional Membership: Member of Institute Human Resources Management.
Mr. Edwin Okiah 	• Area of Responsibility: Internal Audit. • Academic: Bachelor of Commerce - Finance. MSC-Project Management (on-going). • Professional Qualification: CPA (K),CFIP.
Mr. Nesline Gechuki Okiko 	• Area of Responsibility: Legal Services. • Academic Qualification: Bachelor of Law. • Professional Qualification: Diploma in Law.
Mr. Tomno Kibichii 	• Area of Responsibility: Supply Chain. • Academic Qualification: Bachelor of Arts, MSC Procurement & Logistics (on-going). • Professional Qualification: MCSIPS.

Mr James Singa



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

IV) CHAIRMAN'S STATEMENT

1.0 Introduction

It is with great pleasure that I present Commodities Fund's Annual Report and Financial Statement for the financial year ending 30th June 2017. In the past financial year under review, the Fund has focused on prudent lending, strengthening the operations and partnership with other stakeholders.

2.0 Business Environment

Kenya's Gross Domestic Product (GDP) is estimated to have expanded by 5.8 per cent in 2016 compared to a revised growth of 5.7 per cent in 2015. While some sectors such as accommodation and food services recorded improved growth of 13.3 per cent in the year under review compared to a contraction of 1.3 per cent in 2015, agriculture sector registered a decelerated growth of 4.4 per cent in 2016 from a revised growth of 7.2 per cent (*KNBS Economic Survey, 2017*).

Nevertheless, Tea and coffee production increased by 18.5 per cent and 10.8 per cent to 473.0 thousand tonnes and 46.1 thousand tonnes, respectively in 2016, while Sugarcane production reduced from 7.2 million tonnes in 2015 to 7.1 million tonnes in 2016 (*KNBS Economic Survey, 2017*).

3.0 Corporate Performance Overview

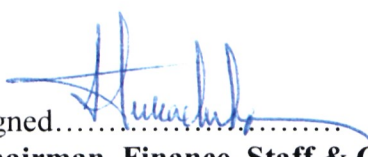
The Fund's net loan book as at 30 June, 2017 stood at Kshs. 8.0 billion down from Kshs.9.1 billion in June 2016, a 12% decline attributed to provisions charged affecting both the current period. During the year, the Fund disbursed a total of Kshs. 891.772 million, to support the two sectors it is financing: Sugar (Kshs. 705.809 million towards Cane Development and Factory Rehabilitation for Sugar Projects) and Coffee (Kshs. 185.963 million).

4.0 The Board Composition

The Board of Trustees was constituted in the fourth quarter of the year under review, and thus is serving its first year of its first term. The Board membership is as set out on page 4-6.

5.0 Conclusion

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

Signed.....

Chairman, Finance, Staff & General Purposes Committee

V. REPORT OF THE MANAGING TRUSTEE (CEO)

1.0 Introduction

Fund pleased to announce the financial results of the Commodities Fund for the year ending 30th June 2017. The period marks Fund's third year after operationalization of Crops Act 2013 that merged Coffee Development Fund with Sugar Development Fund to form Commodities Fund. The Fund is laying ground work to increase its business portfolio with the current sectors it is already operating in (Sugar and Coffee Sectors), as well as initiate efforts to expand to financing other crop sectors, as envisaged under crops act, 2013.

2.0 Financial Performance

The Fund recorded a deficit of Ksh.1.8 billion for the year ending 30 June 2017 compared to surplus of Ksh.41.6 million surplus recorded June in 2016.

During the year under review, the Fund performance was weighed down by a significant increase in provisions as a result of poor performance in Sugar and coffee sectors. As a result the Fund provisions has further increased to Ksh.2.3 billion compared to Ksh.538 million in 2016.

Due to poor performance in Sugar and Coffee sectors and the syndrome of write off by our clients, provisions on Sugar and coffee portfolio has increased to Ksh.9.8 billion compared to Ksh.7.6 billion in 2016 and Ksh. 437 million compared to Ksh. 375 million in 2016 respectively.

Provisions decreased revenue reserve from negative Ksh. 2.2billion to a negative of Ksh.4.06 billion. During the year under review income from credit activities declined to Ksh.534 million from Ksh.547 million representing 2% decline. Revenues from non-credit activities mainly investment declined by 28% from Ksh.179 million to Ksh.129 million. The declined is attributed to capping of interest rates by commercial banks in 2016 and the funds held for disbursement which were being invested as it awaits approval were approved and disbursed.

Operating cost of the Fund excluding Provisions for non-performing debts grew by 1% to Ksh.192 million from Ksh.189 million in 2016. The Fund's loan book as at 30 June, 2017 stood at Ksh. 8.0 billion up from Ksh.9.1 billion in June 2016. This massive 13% decline is attributed to provisions charged affecting both the current and prior periods.

3.0 Credit Portfolio

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

To alleviate the problems the sub sectors were facing, the Fund disbursed a total of Kshs. 891.772 million i.e. Kshs 705.809 million towards Cane Development and Factory Rehabilitation for Sugar Projects and Kshs. 185.963 million for Coffee projects: Advances, Farm inputs, Crop Establishment, Processing and Purchase of Machinery geared towards increasing coffee productivity.

The extension of credit facilities was realized as a result of strong relationship between the Fund and its partners. The performance was achieved in spite of delays in the first half of the financial year occasioned by lack of a Board of Trustees to approve credit requests on time.

The erratic weather pattern, delayed projects implementation as a result of delayed disbursements, unpredictable market prices, delayed payment of proceeds to farmers and anticipated debt waiver by the Government affected loan repayments from the two crops during the year.

4.0 Human Capital

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

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

5.0 Risk Management and Internal Controls

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

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

6.0 The ISO 9001:2015 certification:

The Fund has a functioning and continuously monitored Quality Management System. The QMS is monitored through management review meetings, internal and external audits to ensure it is fully implemented and produces value for all of Commodities Fund's internal and external stakeholders. The process is ongoing for this Quality Management System to be certified under ISO 9001: 2015.

Quality Management System policy

- Commodities Fund (Fund) is committed to providing efficient and reliable credit facilities along the value chain to the satisfaction of the agriculture sector. The Fund shall continually improve its Quality Management System through enhanced customer service delivery to achieve a vibrant, sustainable and profitable scheduled crops in the agricultural sector.
- Commodities Fund is committed to developing and maintaining a Quality Management System which conforms to ISO 9001:2015 International Standards.
- In pursuit of this commitment, Commodities Fund shall:

- a) Establish and maintain a quality management system and continually improve its effectiveness.
 - b) Effectively communicate the quality policy at all levels within the organization and shall be available to relevant interested parties.
 - c) Provide resources for implementation of the quality management system.
 - d) Comply with applicable statutory and regulatory requirements.
- Commodities Fund shall implement, monitor and regularly review this policy and related quality objectives for suitability in line with the changing needs and requirements of our customers and other relevant interested parties.

6.0 Corporate Social Responsibility

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

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

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

7.0 Outlook

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

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

Our achievements in 2016/17 would not have been possible without the dedication and expertise of our staff, to whom I extend my sincere thanks to Ministry of Agriculture Fisheries and Livestock who have provided wise counsel to my colleagues and I during the year, as well as to all our stakeholders, who have accorded us the privilege to serve them.

Signed.....

Managing Trustee

VI. CORPORATE GOVERNANCE STATEMENT

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

1.0 Board of Trustees

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

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

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

2.0 Board Structure and Processes

The Board of Trustees consists of members who contribute expertise based on their professional qualifications and business experience. Board meetings are held at least thrice quarterly with the Fund providing the necessary resources to the Board of Trustees.

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

The Board of Trustees and its constituent committees have Board Charters which govern their operations in conformity with best corporate governance practices as developed and guided by the Government of Kenya. The Board shall be conducting an annual evaluation of its performance and that of its key committees towards the end of the 2017/2018 financial year. This shall be carried out with the evaluation criteria linked to Board and Committee responsibilities and goals as set forth in the charter and governance policies.

3.0 Conduct of Business Operations, Performance

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

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

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

VII. MANAGEMENT DISCUSSIONS AND ANALYSIS

1.0 Highlights of Operational and Financial Performance:

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

The Fund is currently financing coffee and sugar crops that had established funds as at time of the operationalization of Crops Act 2013, on 1st August 2014. As of 30th June 2017, the coffee fund stands at Kshs. 1,675,206,000 while that of the Sugar Fund amounts to Kshs. 12,658,786,000.

Summarized Statement of Financial Position

	2015	2016	2017
	Kshs '000'	Kshs '000'	Kshs '000'
Gross Loans	15,659,968	15,446,846	15,848,973
Provisions on Non- Performing Loans	5,990,878	6,283,903	7,796,306
Net Loans	9,669,090	9,162,943	8,052,667
Gross Interest Accrued on Loans	2,594,929	3,015,074	3,445,336
Provision on Interest	1,558,407	1,769,163	2,534,150
Net Interest on Loans	1,036,522	1,245,911	911,186
Other Assets	1,320,081	1,660,359	1,315,641
Property plant and Equipment	39,739	50,375	62,929
Total Assets	12,065,432	12,119,587	10,342,423
Total Liabilities	96,960	109,517	66,007
Net assets	11,968,472	12,010,070	10,276,416
Capital Reserves	14,340,701	14,340,701	14,337,413
Revenue Reserves	(2,372,229)	(2,330,631)	(4,060,997)
Total Net Reserves	11,968,472	12,010,070	10,276,416
Summarize Performance Statement	-		
Income from Credit Activities	470,168	555,723	539,520
Provision charges on loans & Interest	3,107,560	503,781	2,277,390
Net income/(Deficit) from Credit Activities	(2,637,392)	51,942	(1,737,870)
Income from Non-Credit Activities	91,822	179,110	129,386
Operating Surplus (Deficit)	(2,545,570)	231,052	(1,608,484)
Operating Expenses	126,552	189,454	192,557
Net Surplus (Deficit)	(2,672,122)	41,598	(1,801,041)

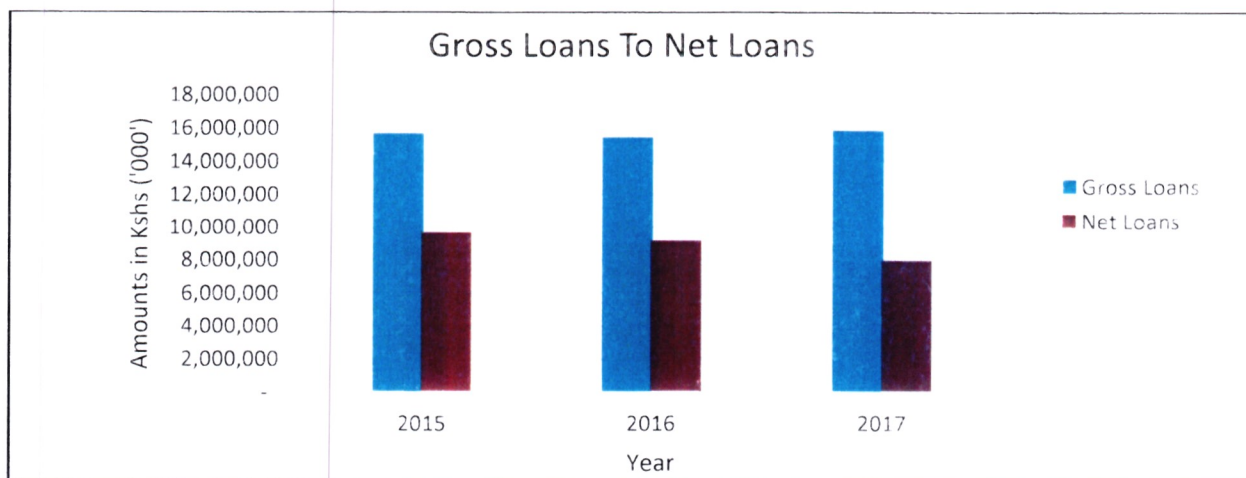
The gross loan portfolio as at June 30th June, 2017 stood at Kshs. 15,848,973,000 comprising of coffee Ksh.1,069,964,000 (7%) and sugar loans of Kshs. 14,779,009,000 (93%). The portfolio is made up of loan products that support production, processing and value addition of the two crops. Comparative gross loan portfolio on June 2016 was Kshs.15,446,846,000 comprising of

Kshs.1,237,815,000 and Kshs. 14,209,030,000 for coffee and Sugar sectors respectively. This represents growth of Kshs. 405,264,000 (2.6%). Overall growth recorded over three year period was Kshs. 189,005,000 (1.2%) to Kshs.15,848,973,000 from Kshs.15,659,968,000, recorded in June 2015.

During the year, the Fund disbursed loans amounting to Kshs. 891,752,974 to borrowers within two sectors. The disbursement were broken into Kshs.185,943,000 and Kshs. 705,810,000 for coffee and sugar sectors respectively. This was 46% improvement from Kshs.482,538,152 disbursed in 2016. Disbursement was affected by the fact that Agriculture and Food authority continued to disburse loans to sugar sectors from the sugar levies they collected. AFA continue to hold the loans disbursed by them in 2015

Loan disbursement was largely affected by absence of a fully constituted Board of Trustees that would otherwise approve credit requests within the Fund. The Board was constituted in the last quarter of the year and loan request are now approved without delays.

The sugar sector which holds 93% of Fund's loan portfolio continues to recorded poor performance due to myriad challenges. All government owned sugar millers except South Nyanza Sugar Company Ltd had suspended operations due to sugar cane shortages. The Industry as a whole is also faced with funding challenges following the abolition of sugar levy that was the sole source of funding for the Industry. The poor performance of the industry has adversely affected the performance of the sugar loan portfolio managed by Commodities Fund. Non-performing loans have more than doubled in the last three years resulting to high provision expenses to a tune of Kshs.6,007,382,000 in three years. As a result net loan loans reported by the Fund have declined to Kshs.7,942,802,000 (18%) from Kshs. 9,669,090,000 reported in 2015. The decline is presented here below.

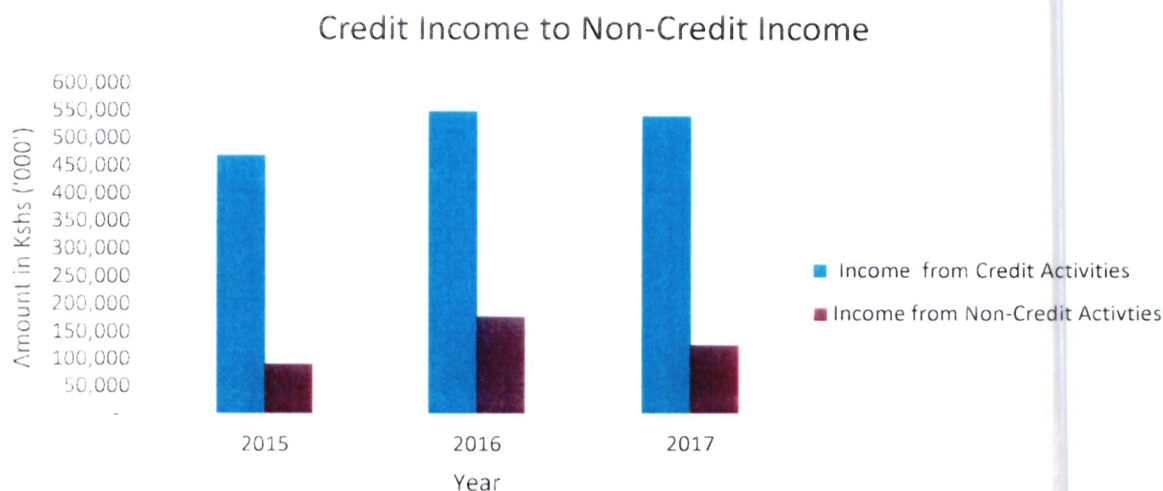


Sugar loan repayments were further affected by the pending written off of old debts aimed at cleaning the balance sheets of Government owned Sugar mills in readiness for privatization. Coffee loans were also affected by ongoing pronouncements that the government will write off debt owed by coffee farmers.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

Other assets of the Fund have remained which mainly consists of cash and cash equivalent grew by about 25% in 2016 but the overall growth within three year period was 1.2% from Kshs.1,359,820,000 to Kshs.1,377,213,000.

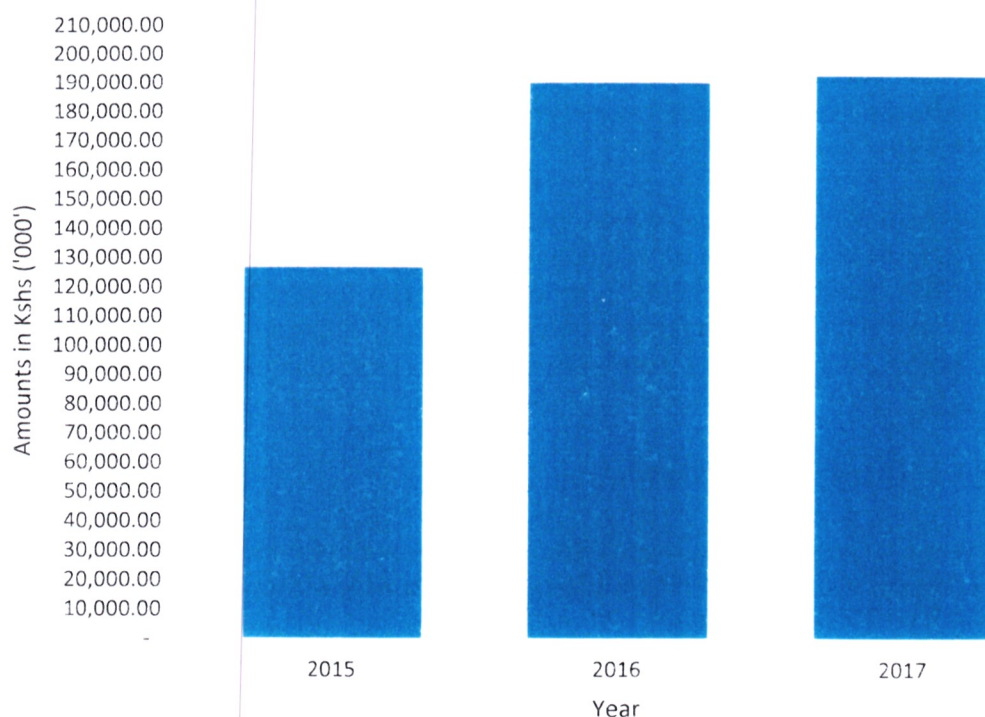
Revenues from core business of the Fund recorded 15% growth from Kshs.470,168,000 in 2015 to Kshs. 539,520,000 in 2017. The growth was however weighed down by increased provisions on Non-performing loans and Interest that grew by 37% to Kshs.10,330,456,000 in 2017 from Kshs.7,549,285 in 2015.

Revenues from non- credit activities grew by 41% from Kshs. 91,822,000 in 2015 to Kshs.129,386,000 in 2017. This was however a decline of 28% from Kshs. 178,582,000 recorded in 2016. The decline was a result of Interest capping by the government and increased loans disbursement that reduced funds available for investment.



Operating expenses of the Fund have grown by 52% to Kshs. 192,557,000 in 2017 from Kshs. 126,552,000 reported in 2015. The increase is attributed to the expended mandate of the Fund which saw the Fund take full charge of the sugar portfolio in 2016 from Agriculture and Food Authority (AFA). The cost is expected to increase further when the Fund takes over salaries and medical costs of staff currently being met by AFA.

Operating Expenses



The Fund ended the year with a net deficit of Kshs.1,801,041,000 that resulted from Provisions of Kshs.2,277,391,000 on account of non-performing loans and Interest. The overall cumulative deficit reached Kshs.4,060,997,000 all attributed to provisions on non-performing loans.

2.0 Growth and Strategy

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

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

3.0 Compliance with statutory requirements

The Fund has operated since 1st of August 2014 without substantive Board of Trustees as required by the enabling Act. However, the four Independent Trustees were appointed and their names gazetted in November 2016. Three additional Trustees representing various government ministries and Agencies were later appointed and the board was finally constituted in June 2017. Before the appointment of the trustees, management would seek critical approvals from the parent Ministry of Agriculture livestock and fisheries.

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

4.0 Existing and potential court cases/ defaults.

The Fund currently has **two (2)** litigations against it. One involves an employment matter with a potential exposure estimated to be around **Two million, eight hundred thousand shillings inclusive of legal fees and taxes (Kshs 2,800,000)**. The second matter involves a spousal consent dispute on a property secured against a loan with the exposure estimated at around **Kenya shillings One million five hundred thousand (Kshs 1,500,000)**.

5.0 Key Projects investments decisions that the Fund implemented

The Fund had budgeted to invest a total of Kshs. 75,210,000 in various assets during the year. The budgeted assets include; Office furniture Kshs. (11,721,000), Equipment (Kshs. 5,000,000), Motor vehicles (Kshs.6,000,000), Acquisition of ERP capable of handling credit management (Kshs. 45,000,000), Other ICT Equipment and facilities Kshs. 7,500,000. All the above assets were financed from surplus generated by the Fund as approved through annual budget estimates. The Fund was able to acquire the ERP at a cost of Kshs.24million, Power generator at cost of Kshs.2.5million, Motor vehicle at cost of Kshs.5.1million, ICT Equipment and facilities Kshs.3.7million and Furniture Kshs1.0million. Acquisition of the budgeted furniture was not subject to opening of branch offices which did not happen. The ERP under implementation is expected to address the reporting challenges, reduce operational risks as well as allowing customers to access services online.

6.0 Major Risks Facing the Fund

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

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

Major risks identified include:

i) Liquidity and Funding Risk

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

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

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

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

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

ii) Credit Risk

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

iii) Interest rate risk

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

iv) Operational Risks

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

The risk may be further categorized as follows:

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

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

7.0 Material arrears in statutory/financial obligation

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

8.0 The entity probity and serious governance issues

The external auditors have in the last two years raised concerns in the manner the assets of the former Sugar Development Fund were shared between Agriculture & Food Authority (AFA) and Commodities Fund. Further concerns were raised on continued interference with Funds' Mandate by AFA who until August 2016 continued to disburse loans to the Sugar Industry contrary to the provisions of Crops Act 2013 section 9 that give the mandate to Commodities Fund. The Board of Trustees who assumed the office in the last quarter of the year will meet the AFA Board of Directors to get solutions to concerns raised by the auditors.

VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

The Fund, as a Responsible Corporate citizen, understands that it has a responsibility to ensure that its mandate is carried in a manner that not only brings about satisfaction to its stakeholders, minding the proper management of the environment it operates in, and especially, fulfilling the social welfare of its immediate but needy neighbours and general public, with deliberate bias to the vulnerable of the society. This is the basic principle that informs the Fund's CSR function and activities.

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

During the financial year under review, the Fund actively played its role as a corporate citizen by sponsoring its staff members to take part during the Standard Chartered Marathon on 20 October 2016. The Marathon is a project for 'Seeing is believing' community initiative aimed at raising funds for the needy in the community.

Also the Fund supported Children with heart conditions to access treatment by sponsoring its staff members to participate in the May 2017 Mater Heart run.

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

To support our farmers, the Fund donated a Digital Weighing Machine to Mboga Valley FCS and Chepsait FCS in Nandi County.

In an effort to care for the environment among the farming community, the Fund donated 9000 grivelliea Trees seedlings to Kikai Farmers' Cooperative society (Bungoma County); Kiungani Farmers' Cooperative Society (Trans Nzoia County) and Mwatati Farmers' Cooperative Society (Machakos County).

In the next financial year, the Fund shall continue to undertake these noble initiatives as guided by CSR policy currently under development.

IX. REPORT OF THE DIRECTORS

The Board of trustees submit their report together with the audited financial statements for the year ended ending 30th June 2017 which shows the Commodities Fund affairs.

1.0 Principal activities

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

2.0 Results

The results of the Fund for the year ended June 30, 2017 are set out on page 25

3.0 Trustees

The Trustees who served from the last quarter of the year ended 30th June 2017 are shown on pages 4-6 .Prior to the trustees assuming the office, the Fund was run by management team set on the pages 7-9.

4.0 Auditors

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

By order of the Board.



Nesline Gechuki Okiko
Legal Manager

Date: 12.3.2018.....

X. STATEMENT OF TRUSTEES' RESPONSIBILITIES

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

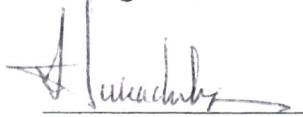
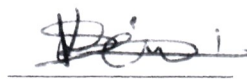
The Trustees are responsible for the preparation and presentation of the *Fund's* financial statements, which give a true and fair view of the state of affairs of the *Fund* for and as at the end of the financial year (period) ended on June 30, 2013. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the *Fund*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the *Fund's* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the *Fund's* financial statements give a true and fair view of the state of *Fund's* transactions during the financial year ended June 30, 2017, and of the *Fund's* financial position as at that date. The Trustees further confirm the completeness of the accounting records maintained for the *Fund*, which have been relied upon in the preparation of the *Fund's* financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

The *Fund's* financial statements were approved by the Board of Trustees on 21st September 2017 and signed on its behalf by:


Trustee
Trustee
Trustee

REPUBLIC OF KENYA

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

P.O. Box 30084-00100
NAIROBI



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON COMMODITIES FUND FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of Commodities Fund set out on pages 27 to 58, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015.

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

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

Basis for Disclaimer of Opinion

1. Transfer of Assets and Liabilities from the defunct Sugar Development Fund

- (i) Commodities Fund was constituted by merging the Sugar Development Fund and the Coffee Development Fund after the enactment of Crops Act No. 13 of 2013. The initial investments of the Commodities Fund were expected to be inherited and derived from the two defunct funds. However, it has been observed that, while an amount of Kshs.1,178,153,000 was contributed by the defunct Coffee Development Fund, an amount of Kshs.4,052,300,000 that was to be contributed by the Sugar Development Fund was instead taken over by the Sugar Directorate under Agriculture and Food Authority (AFA).

Whereas the assets of the former Coffee Development Fund were automatically taken over by the newly formed Commodities Fund, the same did not happen with the assets and liabilities held by the former Sugar Development Fund. There exists

Report of the Auditor-General on the Financial Statements of Commodities Fund for the year ended 30 June 2017

no official handover report or any record to show how the assets and liabilities of the Sugar Development Fund were shared between Agriculture and Food Authority (AFA) and Commodities Fund. Consequently, the completeness and accuracy of the total net assets and liabilities of Kshs.10,276,416,000 of the Fund as reflected in the statement of financial position as at 30 June 2017 cannot be confirmed.

2. Loans and Advances from Exchange Transactions

- (i) As previously reported, the statement of financial position as at 30 June 2017 reflects under non-current assets loans and advances totalling Kshs.7,246,862,000 and as disclosed under Note 14(iv) to the financial statements. This balance is net of Kshs.7,796,306,000 in respect of provision for non-performing loans advanced to various companies some of which are under receivership with an accrued interest of Kshs.2,534,150,000. Although full provision has been made on these long outstanding debts whose recovery remains doubtful, no evidence has been provided for verification showing the actions being taken to ensure recovery of the outstanding loans and accrued interest.
- (ii) The loans and advances balance of Kshs.7,246,862,000 includes amount of Kshs.1,915,615,011 advanced to five Sugar Companies in 2014/15 including one under receivership. Although management explained that the loans were processed and disbursed by Agriculture and Food Authority (AFA) Sugar Directorate, the management did not produce evidence of guarantors and loan security during the audit to confirm that the loans are secure. The loans and advances balance of Kshs.7,246,862,000 further includes Kshs.260,888,075 in respect of an outstanding loan due from West Kenya Sugar Company, which in turn includes Kshs.2,464,420 relating to legal fees in dispute.

From the foregoing, the loans and advances from exchange transactions balance of Kshs.7,246,862,000 as at 30 June 2017 can not be confirmed as fairly stated.

3. Receivables from Non-Exchange Transactions

- (i) The statement of financial position as at 30 June 2017 reflects under current assets a net receivable from non-exchange transactions balance of Kshs.46,280,000. Despite the Fund having made full provision for the long outstanding debts of Kshs.34,753,000, evidence of efforts made by the management of the Fund to recover these long outstanding debts has not been provided for audit review.
- (ii) Further, disclosed under Note 15 to the financial statements is an amount of Kshs.40,000,000 in respect of Other Debtors- Ministry. Records made available for audit indicates that the Ministry of Agriculture, Livestock and Fisheries requested the Fund's management to remit this amount to support Chemilil Sugar Company and Coffee Sub Sector Implementation Committee.

However, the terms of disbursement are not clear, and no supporting information has been provided for the same. Consequently, it has not been possible to ascertain whether the amount was a loan to Chemilil Sugar Company and or the Coffee Sub-Sector Implementation Committee.

Under the circumstances, the recoverability of the receivables from non-exchange transactions balance of Kshs.46,280,000 as at 30 June 2017 cannot be confirmed.

4. Trade and Other Payables from Exchange Transactions (Creditors and Accruals)

The statement of financial positions as at 30 June 2017 reflects under current liabilities a balance of Kshs. 66,007,000 for trade and other payables from exchange transactions. As disclosed in Note 19 to the financial statements, the balance further includes Kshs.48,760,000 for third party payable, comprising of among others an amount of Kshs.43,000,000, which represents cash receipts from Sugar Companies for repayment of loans said to have been advanced by Agriculture and Food Authority (AFA). The Crops Act, 2013 does not give the Agriculture and Food Authority the power to advance loans and, without details of the loan balances, it is not clear how the Fund would account for the amount received from the Sugar Companies.

5. Undisclosed Material Uncertainty

The statement of financial performance reflects a deficit of Kshs.1,801,041, 000 for the year ended. The statement of financial position also reflects an accumulated deficit of Kshs.4,060,997,000 as at 30 June 2017(2016 – accumulated deficit of Kshs.2,330,631, 000). The operating deficit and the upward trend in accumulated deficit are indications of a material condition that may cast significant doubt on the Fund's ability to sustain its services. However, this material uncertainty has not been disclosed by the management in the statement of trustees' responsibilities or in the notes to the financial statements.

6. The Fund's Board of Trustees

- (i) The Crops Act No. 13 of 2013, which created the Fund, did not spell out clearly the mandate of the Fund's Board of Trustees as well as its powers and responsibilities. Consequently, the Fund's Board of Trustees ability to work independently and effectively in the absence of clear laws on its mandate, powers and responsibilities is doubtful.
- (ii) During the year under review, the Fund's Board of Trustees operated without a substantive chairman contrary to Section 6(4) of the State Corporations Act, Cap 446 of the Laws of Kenya. This omission apparently impacted negatively on governance of the Fund.

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

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

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

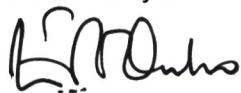
Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

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

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

My responsibility is to conduct an audit of the Fund's financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

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



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

Nairobi

25 June 2018

**XII. STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30TH JUNE 2017**

	NOTES	2016/17	2015/16
		<u>Kshs '000</u>	<u>Kshs '000</u>
Revenue			
Revenue from exchange transactions			
Finance income - External investments	6	662,842	725,989
Other income	7	<u>6,065</u>	<u>8,844</u>
Total revenue		<u>668,906</u>	<u>734,833</u>
Expenses			
Employee cost	8	92,326	81,825
Board Expenses	9	5,156	-
Depreciation and amortization expense	10	16,069	13,982
Repairs and maintenance	11	7,049	4,295
General Expenses	12	<u>2,349,347</u>	<u>593,133</u>
Total expenses		<u>2,469,947</u>	<u>693,235</u>
Surplus/(Deficit) for the period		<u>(1,801,041)</u>	<u>41,598</u>

XIII. STATEMENT OF FINANCIAL POSITION
AS AT 30TH JUNE 2017

	Notes	2016/2017 <u>Kshs '000</u>	2015/2016 <u>Kshs '000</u>
Assets			
Current assets			
Cash and cash equivalents	13	1,178,021	1,517,593
Current receivables from exchange transactions-Interest Receivable on Investment	14(i)	14,084	24,208
Current receivables from exchange transactions-Interest on Loans & Advances	14(ii)	911,186	1,245,911
Current Receivables from exchange transactions- Loans and advances	14(iii)	805,805	744,868
Receivables from non-exchange transactions	15	46,280	42,057
Inventory- Consumables	16	756	0
Total Current Assets		<u>2,956,132</u>	<u>3,574,637</u>
Non-current assets			
Investments	17	76,500	76,500
Property, plant and equipment	18	62,929	50,375
Loans and Advances from exchange transactions	14(iv)	<u>7,246,862</u>	<u>8,418,075</u>
Total non-current assets		<u>7,386,291</u>	<u>8,544,950</u>
Total assets		<u>10,342,423</u>	<u>12,119,587</u>
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions(Creditors and accruals)	19	<u>66,007</u>	<u>109,517</u>
Total liabilities		<u>66,007</u>	<u>109,517</u>
Net assets		<u>10,276,416</u>	<u>12,010,070</u>
Reserves	20	14,337,413	14,340,701
Accumulated surplus/(Deficit)	21	<u>(4,060,997)</u>	<u>(2,330,631)</u>
Total net assets and liabilities		<u>10,276,416</u>	<u>12,010,070</u>

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


Interim Managing Trustee
Nancy C. Cheruiyot


Interim Finance Manager
Silas N. Njagi
ICPAK No. 5078


Chairman FS&GP Committee
Henry H. Duba

Date 12/3/18

Date 12.03.2018

Date 12/03/2018

XIV. XI. STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30TH JUNE 2017

Balance As At 01.07. 2016	Revolving Fund Sugar	Revolving Fund Coffee	Revaluation Reserve	Revenue Reserve	Total
	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000
	12,662,074	1,675,206	3,421	(2,330,631)	12,010,070
Adjustment of overstated Loan interest in NOCO					
Adjustment of overstated Loans Balances reported 2015/2016 Chemilil Sugar Company	(1,458)			(6,053)	(6,053)
Adjustment of overstated Loans Balances reported 2015/2016 Mumias Sugar Company	(300)				(1,458)
Adjustment of overstated Loans Balances reported 2015/2016 Butali Sugar Company	(1,530)				(300)
Adjustment of Commissions Payable Reversed Surplus/(Deficit) for the year	-	-	-	76,728	1,530)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,801,041)</u>	<u>76,728</u>
Balance As at 30 June 2017	<u>12,658,786</u>	<u>1,675,206</u>	<u>3,421</u>	<u>(4,060,997)</u>	<u>10,276,416</u>

XV. STATEMENT OF CASH FLOWS

AS AT 30TH JUNE 2017

	Notes	2016/2017 <u>Kshs 000</u>	2015/2016 <u>Kshs 000</u>
Cash generated from operations			
Surplus/(Deficit) for the year before tax		(1,801,041)	41,596
Adjusted for:			
Depreciation	10	16,069	13,982
Non-cash adjustment to equity		(2,210,004)	(538,534)
Contributed assets			
Impairment			
Gains and losses on disposal of assets			
Contribution to provisions		2,277,391	538,533
Contribution to impairment allowance			
Finance income-External investments-Non Exchange Transactions	6(i)	(129,386)	(178,583)
Finance cost			
Working capital adjustments:			
Decrease in in current and non-current receivables from exchange transactions- loans and Advances		1,110,276	506,146
Decrease in current receivable from exchange and non-exchange transactions		340,626	(218,161)
Decrease in deferred income			
Decrease in trade and other payables from exchange transactions (Creditors and accruals)		(43,510)	12,557
Increase in inventory- Consumables		(756)	-
Net cash flows from operating activities		<u>(440,335)</u>	<u>177,538</u>
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets	18	(28,624)	(24,617)
Proceeds from disposal of investment		-	73,500
Finance Income-External Investments-non Exchange Transactions	6(i)	129,386	178,583
Net cash flows used in investing activities		<u>100,763</u>	<u>227,466</u>
Cash flows from financing activities			
Proceeds from borrowings			
Repayment of borrowings			
Capital grants from government		-	-
Net cash flows used in financing activities		-	-
Net increase/(decrease) in cash and cash equivalents		(339,572)	405,004
Cash and cash equivalents as at 1 July 2016		<u>1,517,593</u>	<u>1,112,589</u>
Cash and cash equivalents at 30 June 2017	<u>13</u>	<u>1,178,021</u>	<u>1,517,593</u>

**XVI. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE PERIOD ENDED 30 JUNE 2017**

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
DESCRIPTION	2016-2017	2016-2017	2016-2017	2016-2017	2016-2017
EXPECTED REVENUE	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Internally Generated Funds	752,679	-	752,679	662,842	(89,837)
Government Grants-Recurrent	-	-	-	-	-
Grants - AFFA	-	-	-	-	-
Other Income from Recurrent	25,500	-	25,500	6,065	(19,435)
Reserves	-	-	-	-	-
Total Revenue	778,179	-	778,179	668,907	(109,272)
Less: AFFA Corporate Disbursement	-	-	-	-	-
Total Revenue after Disbursements	778,179	-	778,179	668,907	(109,272)
PERSONNEL COSTS					
Basic Pay	74,069	-	74,069	36,784	37,285
House Allowance	26,220	-	26,220	8,445	17,775
Commuter Allowance	9,616	-	9,616	2,208	7,408
Airtime Allowance	3,888	-	3,888	1,226	2,663
Entertainment Allowance	3,960	-	3,960	720	3,240
Extraneous Allowance	1,000	-	1,000	84	916
Leave Allowance	1,890	-	1,890	871	1,019
Pension/Gratuity	16,130	-	16,130	5,396	10,734
NSSF	144	-	144	88	56
Medical expenses	10,120	-	10,120	6,314	3,806
Acting Allowance	3,078	-	3,078	1,052	2,026
Transfer Allowance	1,500	-	1,500	35	1,465
Responsibility Allowance	1,500	-	1,500	-	1,500
Special Duty allowance	1,594	-	1,594	-	1,594
Sub Total	154,709	-	154,709	63,224	91,485

BOARD EXPENSES

Sitting Allowance	4,050	-	4,050	900	3,150
Accommodation and Subsistence	1,679	-	1,679	146	1,533
Corporate Governance Trainings Seminars & Retreats	4,800	-	4,800	990	3,810
Chairman's Honorarium	960	-	960	-	960
Millage	462	-	462	27	435
Snacks for board Meetings	230	-	230	42	188
Lunch allowance	352	-	352	29	323
Board Medical Insurance	450	-	450	202	248
All Directors- Travel	5,475	-	5,475	2,437	3,038
Other BOT expenses		-	-	383	(383)
Sub Total	18,458	-	18,458	5,156	13,302

OPERATING EXPENSES/ADMINISTRATIVE EXPENSE

Credit & Field Activities

a) Loan Monitoring & Evaluation	16,379	-	16,379	16,113	266
b) Stakeholders Forum Expenses	5,689	-	5,689	1,978	3,711
c) Debt Collection Expenses	12,810	-	12,810	-	12,810
d) Product Promotion	6,000	-	6,000	-	6,000
e) Loans Provision	328,763	-	328,763	2,277,391	(1,948,628)
f) Credit Assurance	9,500	-	9,500	-	9,500
g) ICPP Activities	10,255	-	10,255	933	9,323
Sub Total	389,397	-	389,396	2,296,414	(1,907,018)

Corporate Communication

a) Publicity Materials, Branding & Advertising	9,440	-	9,440	5,470	3,970
b) Public relations and corporate branding	-	-	-	-	-
c) Shows , Exhibitions & trade fairs	5,260	-	5,260	5,216	44
d) Corporate Social Responsibility	2,250	-	2,250	491	1,759
e) Subscriptions to Associations	1,243	-	1,243	391	852
Sub Total	18,193	-	18,193	11,568	6,625

Human Resource Costs

a) Staff Welfare	2,700	-	2,700	1,820	880
c) Trainings, Seminar, Retreats and Workshops	16,232	-	16,232	15,861	371
d) Consultancies	3,250	-	3,250	1,094	2,156
e) Subscriptions to Professional Bodies	300	-	300	253	47
f) Staff Uniforms	300	-	300	-	300
g) Internships and attachment	-	-	-	-	-
Sub Total	22,782	-	22,782	19,028	3,754

Audit Expense

a) Audit Fees	750	-	750	919	(169)
b) Systems Audit	-	-	-	-	-
c) Internal Audit	4,482	-	4,482	2,316	2,166
d) Risk and Risk Management	1,200	-	1,200	-	1,200
e) ISO Audits	2,000	-	2,000	1,130	870
Sub Total	8,432	-	8,432	4,365	4,067

Legal Costs

a) Legal Services	4,000	-	4,000	564	3,436
b) Travel & Subsistence	504	-	504	-	504
c) Workshops	-	-	-	-	-
Sub Total	4,504	-	4,504	564	3,940

Finance & Administration

a) Office Expenses					
i. common user items-Printing and Stationery	4,450	-	4,450	4,622	(172)
ii. Communication Telephone and Postage	556	-	556	506	50
iii. Email And Internet	840	-	840	675	165
b) Vehicle Running Expenses	-	-	-	-	-
i. Fuel	3,556	-	3,556	3,731	(175)
ii. Insurance	2,500	-	2,500	1,375	1,125
c) Insurance Expenses	3,635	-	3,635	2,484	1,151
d) Local Travelling Expenses	12,655	-	12,655	10,672	1,983
e) International travel	11,731	-	11,731	10,428	1,303
f) Security	1,590	-	1,590	503	1,087
g) Utilities- Electricity and water	1,080	-	1,080	664	416

h) Rent and rates	9,168	-	9,168	8271	897
i) Cleaning, Garbage & Sanitary	600	-	600	601	(1)
j) Management Fees	1,080	-	1,080	1,079	1
k) Newspapers, Periodicals, Journals and subscriptions	517	-	517	306	
l) Bank Charges	800	-	800	597	203
Sub Total	54,758	-	54,759	46,511	8,247

REPAIRS AND MAINTENANCE

a) Automobiles	3,170	-	3,170	2,678	492
b) Buildings	500	-	500	748	(248)
c) Computers & Equipment	3,845	-	3,845	3,623	222
d) Others-Furniture and Fittings	-	-	-	-	-
Sub Total	7,515	-	7,515	7,049	466

TOTAL EXPENDITURE**OPERATING****SURPLUS/(DEFICIT)****DEPRECIATION AND AMORTIZATION****SURPLUS/(DEFICIT)****CAPITAL EXPENDITURE**

b) Plant and Equipment	5,000	-	5,000	2,160	2,840
d) Automobiles	6,000	-	6,000	5,160	840
e) Computer and Electronic Equipment	52,500	-	52,500	20,306	32,194
g) Furniture and Fittings	11,710	-	11,710	998	10,712
Total Capital Budget	75,210	-	75,210	28,624	46,586
OVERALL SURPLUS/(DEFICIT)	<u>7,460</u>	<u>-</u>	<u>7,460</u>	<u>(1,829,664)</u>	<u>(1,837,124)</u>

NOTES EXPLAINING THE VARIANCES BETWEEN THE BUDGET AND THE ACTUAL AMOUNTS

- a) The internally generated income which include interest on loans and investments amounted to **Kshs. 662,842,000** against budget of **Kshs. 752,679,000** falling short of the budget by **Kshs. 89,837,000**. The shortfall is attributed to the fact the Fund did not meet its loan disbursement target and interest capping by commercial banks which affected income from investment.
- b) Other incomes is mainly loan processing fee that totalled **Kshs. 6,065,000** compared to **Kshs.25,500,000** resulting to unfavourable variance of **Kshs.19,435,000**. The variance is
- c) attributed to fact that loan disbursement target was not met and again there was over budgeting of the item.
- d) The Actual **personnel** expenditure was **Kshs. 63,224,000** against budget of **Kshs.154,709,000** resulting to positive variance of **Kshs. 91,485,000**. The huge variance under the vote was due to the fact that the budgeted salary adjustments were not implemented pending conclusion of on-going job evaluation exercise. Secondly the Fund had budgeted to employ additional staff during the year but is yet to implement pending conclusion of the above said exercise.
- e) The Board expenses totalled **Kshs. 5,156,000** against budget of **Kshs.18,458,000** resulting to positive variance of **Kshs.13,302,000**. The Board of Trustees was constituted in the last quarter of the hence the lower expenditure.
- f) The actual Credit Management expenses were **Kshs. 2,296,414,000** against a budget of **Kshs. 389,397,000**. This huge negative variance was as a result huge provision for Non-performing loans and associated interest. Provisions amounted to **Kshs. 2,277,391,000** against the budgeted figure of **Kshs.328,763,000**. This Sugar sector particularly performed very poorly and almost government owned millers are unable to service their loans. Again the sugar cane out grower institutions within the catchment of the government owned millers have also collapsed and debts owed by them are not serviced. As a result loan provision on those debts continues to be increased to match the debts.
- a) Corporate communications vote incurred **Kshs.11,568,000** against budget of **Kshs. 18,193,000** resulting to positive variance of **Kshs.6,625,000**. The Fund had planned to carry out branding and marketing activities that were pegged on opening of new branches. However, the Fund did not open the envisaged branches hence the savings.
- b) Human resource vote comprising of training, staff welfare and consultancies incurred a total of **Kshs.19,028,000** against budget of **Kshs.22,782,000** resulting to savings of **Kshs.3,754,000**. The savings was mainly as a result of cost cutting effectiveness in carrying out the budgeted activities.
- c) Audit Fees incurred was **Kshs.4,365,000** against budget of **Kshs.8,432,000** resulting to budget variance of **Kshs.4,067,000**. The variance is attributed to activities that were not completed during the year such as ISO certification and also on cost cutting.
- d) Legal cost vote incurred **Kshs.564,000** against budget of **Kshs.4,504,000** resulting to savings of **Kshs.3,940,000**. The savings are attributed to the fact the anticipated two legal matters had not been concluded by the end of the financial year.

- e) Finance & Administrative cost incurred **Kshs.46,511,000** against budget of **Kshs.54,759,000** resulting to a positive variance of **Kshs.8,247,000** .This positive variance is attributed to fact that opening of branches where some funds would have been spent to pay rent , water, electricity, cleaning, security and other staff operation did not take place.
- f) Substantial savings were made of capital items after the budgeted ERP was acquired at cost of **Kshs.24,734,000** against budget of **Kshs. 45,000,000**, Generator acquired at Kshs.2,510,000 against budget of **Kshs.5,000,000** while budgeted furniture for branch offices amounting to **Kshs.11,710,000** were not utilized since opening of offices did not take place.

XVII. NOTES TO THE FINANCIAL STATEMENTS

1. General Information

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

2. Statement Of Compliance And Basis Of Preparation

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

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

3. Adoption of New and Revised Standards

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

Standard	Impact
IPSAS 33: First time adoption of Accrual Basis IPSAS	(Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 33, First-time Adoption of Accrual Basis IPSASs. IPSAS 33 grants transitional exemptions to entities adopting accrual basis IPSASs for the first time, providing a major tool to help entities along their journey to implement IPSASs. It allows first-time adopters three years to recognize specified assets and liabilities. This provision allows sufficient time to develop reliable models for recognizing and measuring assets and liabilities during the transition period. <i>The Fund adopted IPSAS in the year ended 30 June 2014 and therefore provisions of first time adoption of accrual basis does not apply to the Fund.</i>
IPSAS 34: Separate Financial Statements	(Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 34, Separate Financial Statements. IPSAS 34 prescribes the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements. <i>The Fund does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply</i>

Standard	Impact
IPSAS 35: Consolidated Financial Statements	(Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 35, Consolidated Financial Statements. IPSAS 35 establishes principles for the preparation and disclosure of consolidated financial statements when an entity controls one or more entities. It requires an entity that controls one or more other entities to assess control over those entities based on the following: - Its power over the other entity - Its exposure or rights to variable benefits from involvement with the other entity - Its ability to control the nature, timing and amount of benefits from the other entity. Once control is assessed the controlling entity is supposed to prepare consolidated financial statements unless it meets all the criteria under section 5 of IPSAS 35. <i>The Fund does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.</i>
IPSAS 36: Investments in Associates and Joint Ventures	(Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 36, Investments in Associates and Joint Ventures. The Standard prescribes for the accounting for investments in associates and joint ventures and to set out requirements for the application of the equity method when accounting for investments in associates and joint ventures. The standard shall be applied by all entities with significant influence over, or joint control of, an investee where the investment leads to the holding of a quantifiable ownership interest. <i>The Fund does not have investments in associates or joint ventures and therefore the standard does not apply.</i>
IPSAS 37: Joint Arrangements	(Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 37, Joint Arrangements. IPSAS 37 establishes principles for financial reporting by entities that have an interest in arrangements that are controlled jointly. <i>The Fund does not have an interest in a joint arrangement and therefore the standard does not apply</i>
IPSAS 38: Disclosure of Interests in Other Entities	(Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 38, Disclosure of Interests in Other Entities. IPSAS 38 requires an entity to disclose information that enables users of its financial statements to evaluate the nature of and risks associated with, its interests in controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and the effects of those interests on its financial position, financial performance and cash flows. <i>The Fund does not have an interests in other entities and therefore the standard does not apply.</i>

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

Standard	Effective date and impact:
IPSAS 39: Employee Benefits	Applicable: 1st January 2018 The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.
IPSAS 40: Public Sector Combinations	Applicable: 1st January 2019: The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non- exchange transactions which are covered purely under Public Sector combinations as amalgamations.

iii) **Early adoption of standards**

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Summary of Significant Accounting Policies

a) Revenue recognition

i) Revenue from non-exchange transactions

Fees and Commission Income

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

ii) Revenue from exchange transactions

Interest income

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

➤ Interest Income and Expense

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

➤ Interest Computation

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

b) Budget information

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

c) Taxation

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

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

c) **Property, plant and equipment**

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

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

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

Financial Liabilities-Payables

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

f) Nature and purpose of reserves

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

g) Changes in accounting policies and estimates

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

h) Employee benefits Retirement benefit plans

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

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

i) Related Parties

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

j) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in Value. Bank account balances include amounts held at various commercial banks at the end of the financial year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

k) Comparative figures

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

5. Critical Accounting Judgement and Key Sources of Estimation Uncertainty

Estimates and Assumptions

In the process of applying the Fund's accounting policies, the Fund's Management make certain judgments, estimates and assumptions that are continuously evaluated and assessed for adjustments based on prior experience and other determinants, including expectations of future events that are believed to be reasonable under the prevailing circumstances. Although these estimates are based on the Management best knowledge of current events and actions, in practice actual results may differ from these estimates. Such estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described in these notes to the Financial Statements.

a) Key sources of estimation uncertainty

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

b) Equipment

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

c) Impairment

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

d) Provisions and contingent liabilities

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

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

Contingent liabilities

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

Contingent assets

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

e) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2017

6. Finance income - external investments

	2016/2017 Kshs 000	2015/2016 Kshs 000
(i) Non Exchange Transactions		
Interest Income From Treasury Bonds	9,180	13,590
Cash Investment and Fixed deposits- Received Income	106,123	140,784
- Accrued Income	14,084	24,208
	129,386	178,582
(ii) Exchange Transactions		
Interest Income Loans Debtors -Coffee Portfolio	98,508	82,138
-Sugar Portfolio	434,947	465,269
	533,455	547,407
Total finance income – external investments	<u>662,842</u>	<u>725,989</u>

7. Other income

	2016/2017 Kshs 000	2015/2016 Kshs 000
Loan Processing fee	6,065	8,316
Others	0	528
Total other income	<u>6,065</u>	<u>8,844</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8. Employee costs

	2016/2017	2015/2016
	Kshs 000	Kshs 000
Salaries & wages	36,784	30,444
Employee related cost-Pensions contributions & Medical Aids	11,799	12,138
Travel, accommodation, subsistence and other allowances	29,102	22,278
Housing benefits and allowances	14,641	14,865
Total Employee Costs	92,326	81,825

9. Remunerations of Directors

	2016/2017	2015/2016
	Kshs 000	Kshs 000
Chairman's Honorarium	-	-
Directors Sitting, accommodation & Subsistence Allowances	2,643	-
Others (Trainings, medical, Travel, etc.)	2,513	-
Total Remunerations of Directors	5,156	-

10. Depreciation and amortization expense

	2016/2017	2015/2016
	Kshs 000	Kshs 000
Property, plant and equipment	16,069	13,982
Total depreciation and amortization	16,069	13,982

11. Repairs and maintenance

	Kshs 000	Kshs 000
Buildings	748	24
Automobiles	2,678	1,839
Computer and Electronic Equipment	3,509	2,332
Office and Communication Equipment	-	-
Furniture and Fittings	114	100
Total repairs and maintenance	7,049	4,295

12. General expenses

	2016/2017	2015/2016
	Kshs 000	Kshs 000
Printing and Stationery	1,673	1,119
Communication Telephone and Postage	1,181	1,218
Vehicle Running Expenses	3,731	3,233
Insurance Expenses	3,859	2,124
Stakeholder Forum Expenses	1,978	-
International travel	10,428	5,862
Security	503	472

NOTES TO THE FINANCIAL STATEMENTS(Continued)

Electricity and water	664	853
Rent and rates	8,271	7,945
Computer Accessories	63	809
Cleaning, Garbage & Sanitary	601	238
Management Fees	1,079	1,075
Newspapers, Periodicals, Journals and subscriptions	306	297
Advertising and Publicity	5,470	409
Bank Charges	597	498
Staff Welfare	1,820	842
Trainings, Seminar, Retreats and Workshops	15,861	14,243
Consultancies	2,224	1,489
Subscriptions to Professional Bodies	644	502
Audit Fees	919	696
Legal Services	564	1
Shows , Exhibitions & trade fairs	5,216	2,519
Corporate Social Responsibility	491	653
Provision for bad debts	2,277,391	538,533
Office general expenses	2,885	3,077
ICCP Expenses	933	4,421
Total general expenses	<u>2,349,347</u>	<u>593,130</u>

13. Cash and cash equivalents

	2016/2017	2015/2016
(a) Bank	Kshs 000	Kshs 000
Current Accounts	17,868	41,705
On call deposits	-	33,024
Fixed Deposits	1,155,954	1,433,538
Others		
Safaricom - Mkahawa	1,440	7,739
- Pay Bill	2,637	1,487
Cash on hand	121	100
Total Cash and cash equivalents	<u>1,178,021</u>	<u>1,517,593</u>

13 (a) Detailed analysis Cash and cash equivalents

Financial Institution	Account number	2016/2017	2015/2016
a) Current Account		Kshs 000	Kshs 000
Cooperative Bank (a)	O1136030994600	8,761	7,526
(b)	O1136030994601	751	3,886
(c)	O1136035349800	3,250	3,111
National Bank	O1345061389300	5,072	5,980
Sidian Bank	O1033020007800	16	21,167
Equity Bank	O1330299214184	7	35
Family Bank	O14000033336	1	0
Kenya Commercial Bank	1132784905	10	-
Sub-total		<u>17,869</u>	<u>41,705</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont.)**b) On – Call Deposits Account**

Cooperative Bank	O1150030994620	-	13,024
	O1150035349807	-	20
Sub-total		<u>-</u>	<u>33,024</u>

c) Fixed Deposits Account

Cooperative Bank	O1136030994600	273,189	187,407
Family Bank	O14000033336	261,689	505,798
Development Bank	O27289	172,460	463,306
Equity Bank	O1330299214184	125,265	223,027
National Bank	O1345061389300	160,586	54,000
Sidian Bank	O1033020007800	7,177	-
Kenya Commercial Bank	O1132784905	155,588	-
Sub-total		<u>1,155,954</u>	<u>1,433,538</u>

d) Others

Safaricom -Mkahawa	552601	1,440	7,739
-Pay Bill	552600	2,637	1,487
-Cash on hand	-	121	100
Sub-total		<u>4,198</u>	<u>9,326</u>
Grand Total		<u>1,178,021</u>	<u>1,517,593</u>

14. Receivables from exchange transactions

	2016/2017	2015/2016
	Kshs 000	Kshs 000
(i) Current receivables from investments		
Interest receivable from investments	14,084	24,208
Total current receivables	<u>14,084</u>	<u>24,208</u>

(ii) Interest on loans and Advances

	2015/2016		
	Sugar	Coffee	Total
	Kshs 000	Kshs 000	Kshs 000
Gross Interest on Loans and Advances	2,844,746	170,328	3,015,074
Provisions beginning of the year	1,558,407	-	1,558,407
Provisions Charge in 2015/16	157,056	53,700	210,756
Total Provision as at 30.6.16	1,715,463	53,700	1,769,163
Net Interest on Loans and Advances as at 30.6.16	<u>1,129,283</u>	<u>116,628</u>	<u>1,245,911</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

	2016/2017		
	Sugar	Coffee	Total
	Kshs 000	Kshs 000	Kshs 000
Gross Interest on loans and Advances	3,213,114	232,223	3,445,336
Restated Provisions as at 01.07.16	1,715,463	53,700	1,769,163
Provision charge for the year	<u>659,720</u>	<u>105,267</u>	<u>764,987</u>
Total provisions as at 30.6.17	<u>2,375,183</u>	<u>158,968</u>	<u>2,534,150</u>
Net Interest on Loans and Advances as at 30.6.17	<u>837,930</u>	<u>73,255</u>	<u>911,186</u>

(iii) Current receivables Loans and Advances

	2016/2017	2015/2016
	Kshs 000	Kshs 000
Loans and Advances from exchange transactions - Coffee Portfolio	402,190	247,552
- Sugar Portfolio	<u>403,614</u>	<u>497,316</u>
	<u>805,805</u>	<u>744,868</u>
Total Current Receivables	<u>1,729,162</u>	<u>2,008,834</u>

(iv) Non-current receivables

Loans and Advances from exchange transactions	2015/2016		
	Sugar	Coffee	Total
	Kshs 000	Kshs 000	Kshs 000
Gross Loans and Advances	14,209,030	1,237,815	15,446,846
Provisions beginning of the year	5,845,719	145,159	5,990,878
Provisions Charge in 2015/16	115,362	177,663	293,025
Additional due to change in policy	-	-	-
Provision as at 30.6.16	5,961,081	322,822	6,283,903
Net Loans and Advances as at 30.6.16	8,247,949	914,993	9,162,943
Current Portion transferred to current receivables	<u>497,316</u>	<u>247,552</u>	<u>744,868</u>
Total non-current receivables	<u>7,750,634</u>	<u>667,441</u>	<u>8,418,075</u>

	2016/2017		
	Sugar	Coffee	Total
	Kshs 000	Kshs 000	Kshs 000
Gross Loans and Advances-Restated	14,779,009	1,069,964	15,848,973
Restated Provisions as at 01.07.16	5,961,081	322,822	6,283,903
Provision charge for the year	1,556,179	(43,775)	1,512,403
Total provisions as at 30.6.17	<u>7,517,260</u>	<u>279,047</u>	<u>7,796,306</u>
Net Loans and Advances as at 30.6.17	<u>7,261,750</u>	<u>790,917</u>	<u>8,052,667</u>
Current Portion transferred to current receivables	<u>403,614</u>	<u>402,190</u>	<u>805,805</u>
Non-current portion receivables	<u>6,858,135</u>	<u>388,727</u>	<u>7,246,862</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

15. Receivables from non-exchange transactions

Current receivables	2016/2017 Kshs 000	2015/2016 Kshs 000
Funds held by Intermediaries	34,753	34,3
Prepayments	5,244	4,042
Staff debtors	1,036	78
Other Debtors -Ministry	40,000	37,937
	<u>81,033</u>	<u>76,810</u>
Less Provisions on Receivables from non-Exchange transactions	34,753	34,753
Total current receivables	<u>46,280</u>	<u>42,057</u>

16. Inventories-Consumables

	2016/2017 Kshs 000	2015/2016 Kshs 000
Consumables stores	756	-
Total inventories at lower of cost and net realizable value	<u>756</u>	<u>-</u>

17 .Investments

a) Investment in Treasury bills & Bonds

Financial Institution

	2016/2017 Kshs 000	2015/2016 Kshs 000
CBK-12 Year GOK Infrastructure Bond	76,500	76,500
Grand total	<u>76,500</u>	<u>76,500</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18. Property, plant and equipment

	Automobiles	Computer and Electronic Equipment	Office and Communication Equipment	Furniture and Fittings	Work in Progress	TOTAL
	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000
Cost						
At 31 July 2015	32,159	49,804	2,771	26,045	-	110,779
Additions	18,501	6,024	22	70	-	24,617
Disposals	-	-	-	-	-	-
Transfers/adjustments	-	-	-	-	-	-
At 30 June 2016	50,660	55,828	2,793	26,115	-	135,396
Additions	5,160	3,137	654	998	18,674	28,624
Disposals	-	-	-	-	-	-
Transfer/adjustments	-	-	-	-	-	-
At 30 June 2017	55,820	58,965	3,447	27,113	18,674	164,020
Depreciation and impairment						
At 30 June 2015	(18,456)	(44,197)	(2,601)	(5,785)	-	(71,039)
Depreciation	(7,060)	(3,491)	(132)	(3,299)	-	(13,982)
Impairment	-	-	-	-	-	-
At 30 June 2016	(25,516)	(47,688)	(2,733)	(9,084)	-	(85,022)
Depreciation	(8,194)	(4,572)	(70)	(3,233)	-	(16,069)
Disposals	-	-	-	-	-	-
Impairment	-	-	-	-	-	-
Transfer/adjustment	-	-	-	-	-	-
At 30 June 2017	(33,710)	(52,260)	(2,803)	(12,317)	-	(101,091)
Net book values						
At 30 June 2017	22,110	6,705	644	14,796	18,674	62,929
At 30 June 2016	25,144	8,140	60	17,031	-	50,375

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19. Trade and other payables from exchange transactions

	2016/2017	2015/2016
	Kshs 000	Kshs 000
Trade payables	8,954	7,100
Payment received in advance	8,293	3,900
Employee Advance		
Third party payable	48,760	21,649
Commissions payables		76,728
Total trade and other payables	<u>66,007</u>	<u>109,517</u>

20. Capital Reserves

	Sugar	Coffee	Revaluation Reserve	Total
	Revolving Fund Sugar	Revolving Fund Coffee		
	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Balance As At 01.07. 2016	12,662,074	1,675,206	3,421	14,340,701
Adjustments				-
Adjustment of overstated Loans Balances reported 2015/2016 Chemilil Sugar Company	(1,458)	-	0	(1,458)
Adjustment of overstated Loans Balances reported 2015/2016 Mumias Sugar Company	(300)	-	0	(300)
Adjustment of overstated Loans Balances reported 2015/2016 Butali Sugar Company	(1,530)	-	0	(1,530)
Balance As At 30 .06. 2017	<u>12,658,786</u>	<u>1,675,206</u>	<u>3,421</u>	<u>14,337,413</u>

21. Revenue Reserves

	Kshs'000'
Balance As At 01.07. 2016	(2,330,631)
Adjustments	
Adjustment of Interest income in 2015/16 by Overstated Interest Nzoia Outgrowers Co.	(6,053)
Reversal of Commissions Payable	76,728
Deficit for the period	<u>(1,801,041)</u>
Revenue Reserve Balance As At 30 .06. 2017	<u>(4,060,997)</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22. Financial Risk Management

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

(i) Credit Risk

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

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

	Total Amount Kshs 000	Fully Performing Kshs 000	Past Due Kshs 000	Impaired Kshs 000
As At 30.06. 2017				
Receivables from exchange transactions	19,294,309	1,825,092	7,328,534	10,140,683
Receivables from non-exchange transactions	95,117	60,364	-	34,753
Bank balance	1,178,021	1,178,021	-	-
Total	20,567,447	3,063,477	7,328,534	10,175,436
As At 30. 06. 2016				
Receivables from exchange transactions	18,471,261	2,805,356	8,068,010	7,597,894
Receivables from non-exchange transactions	101,018	66,265	-	34,753
Bank balance	1,517,593	1,517,593	-	-
Total	20,089,872	4,389,214	8,068,010	7,632,647

(ii) Liquidity Risk Management

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

	Less than 1 month Kshs 000	Between 1-3 months Kshs 000	Over 5 month Kshs 000	Total Kshs 000
As At 30.06.2017				
Trade Payables & Other Payables	8,954	8,293	48,760	66,007
Current portion of borrowings	-	-	-	-
Provisions	-	-	-	-
Deferred income	-	-	-	-
Employee benefit obligations	-	-	-	-
Total	8,954	8,293	48,760	66,007
As At 30.06.2016				
Trade Payables & Other Payables	7,153	3,988	21,649	32,789
Current portion of borrowings	-	-	-	-
Commissions payable	-	-	76,728	76,728
Deferred income	-	-	-	-
Employee benefit obligations	-	-	-	-
Total	7,153	3,988	98,377	109,517

(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 ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the 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 Fund's Audit Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

a) Interest rate risk

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The company's interest rate risk arises from bank deposits. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company's deposits.

Management of interest rate risk

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

Capital Risk Management

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

	2016-2017		2015-2016
	Kshs 000		Kshs 000
Revaluation reserve	3,421		3,421
Retained earnings	(4,060,997)		(2,330,631)
Capital reserve	14,333,992		14,333,992
Total funds	10,276,416		12,010,070
Total borrowings	-		-
Less: cash and bank balances	(1,178,021)		(1,517,593)
Net debt/(excess cash and cash equivalents)	9,098,395		10,492,477
Gearing	100%		100%

23. Related Party Balances**(a) Nature of related party relationship**

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

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:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016/2017	2015/2016
	<u>Kshs 000</u>	<u>Kshs 000</u>
Directors	5,156	-
Key Management compensation	17,618	20,519
	<u>22,774</u>	<u>20,519</u>

The above figures exclude remuneration amounting to Kshs 5.09M payable to two members of the key management disclosed on page (iv). Additional three staff not in the key management were remunerated by Agriculture and Food Authority (AFA) to a tune of Kshs 6.03M. The Fund has also incurred cost of remuneration and benefits for two staff seconded at AFA whose total remuneration during the year amounted to Kshs 2.6M. The Fund is in the process of transferring their pay point from AFA to Commodities Fund.

c) Due from related parties

	2016/2017	2015/2016
	<u>Kshs 000</u>	<u>Kshs 000</u>
Due from ministry of agriculture	40,000	37,937
	<u>40,000</u>	<u>37,937</u>

d) Due to related parties

The Fund was formed to offer credit and advances to farmers for the development of crops regulated by AFA. However, up to year 2015/2016 AFA continued to disburse loans to the sugar sector alongside the Fund. As a result some customer who benefited from loans from AFA channelled their loan repayments to Commodities Fund. Funds received relating to AFA loans but not forwarded to AFA are summarized as follows:

	2017/2016	2015/2016
	<u>Kshs 000</u>	<u>Kshs 000</u>
Loan repayment funds	43,000	18,000
	<u>43,000</u>	<u>18,000</u>

24 Contingent Liabilities

Contingent liabilities	2016-2017	2015-2016
	<u>Kshs 000</u>	<u>Kshs 000</u>
Two court case against The Fund	4,300	2,800
Total	<u>4,300</u>	<u>2,800</u>

The Fund has **two (2)** litigations against it. One involves an employment matter with a potential exposure estimated to be around **Two million, eight hundred thousand shillings inclusive of legal fees and taxes (Kshs 2,800,000)**. The second matter involves a spousal consent dispute on a property secured against a loan with the exposure estimated at around **Kenya shillings One million five hundred thousand (Kshs 1,500,000)**. However management is of opinion it will win the two cases hence no need for provisions in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)**25 Capital Commitments**

Capital commitments	2016-2017	2015-2016
	Kshs	Kshs
	000	000
Authorised for	-	-
Authorised and contracted for	<u>8,569</u>	-
Total	<u>8,569</u>	=

At the end of the year The Fund was in the process implementing a new ERP system and installing a generator whose contracted costs were Kshs 24,734,000 and Kshs 2,510,000 respectively. As at 30th June 2017 the balance for the ongoing works was Kshs 7,565,000 and Kshs 1,004,000 respectively.

26 Events after the reporting period

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

27 Ultimate and Holding Entity

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

28 Currency

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

XVIII. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
AFA/CF/452A/2015/2016/(23)	1. The statement of financial position as at 30th June 2016 reflects loans and advances totalling Ksh 8,418,075,000, as disclosed under note 17(ii) to the financial statements. This balance, however, includes non-performing loans totalling Kshs. 5,565,961,068 advanced to various companies. As previously reported, some of these companies are under receivership with an accrued interest of Ksh 1,227,735,409. Although full provisions on these long outstanding debts whose recovery remains doubtful has been made, no evidence has been provided for verification showing the actions being taken to ensure recovery of the outstanding loans and accrued interest. Further, the loan balance of Ksh 8,418,075,000 also includes an amount of Kshs. 1,915,615,011 advanced to five sugar companies in 2014/15 including one under receivership. Although it has been explained that the loans were processed and disbursed by Agriculture and Food Authority (AFA) Sugar Directorate, evidence of the board's minutes approving the loans has not been presented for audit verification. The loan balance of Ksh 8,418,075,000 further includes Kshs 260,888,075 in respect of an outstanding loan due from West Kenya Sugar Company, which in turn includes Kshs 2,464,420 relating to legal fees in dispute. From the foregoing, loans and advances from exchange transactions balance of Kshs 8,418,075,000 as at 30th June 2016 could not be confirmed as fairly stated.	Write off Historical sugar debt was approved by parliament in 2014. Formal communication on this is still being awaited though the approval is on record in the Hansard. The Write off was meant to clean up the balance sheet of government owned millers in readiness for privatization. Management believes the planned write off will significantly reduce the problem of uncollectable debts. Management has also revised its credit policy to clearly outline portfolio classification and rates applicable for provision. Adequate provisions has been made on non-performing debts in accordance with the credit policy. Management plans to table a paper to the Board on the disputed amount	Board of Trustee, Managing Trustee and Credit Manager	Not Resolved	30 th June, 2018

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		relating to legal fees so as to get way forward on the amount. The Board of Trustees has initiated a process of resolving issues relating to AFA.			
	2. The current receivables from exchange transactions balance of Kshs 24,208,000 reflected in the statement of financial position as at 30 th June 2016, excludes as in the previous year, an amount of Kshs.146,717,000 due from the defunct Sugar Development Fund in relation to expenses incurred by the Fund on behalf of various institutions some of which are under receivership, prepayments and deposits of Kshs. 100,000 and imprests of Kshs. 1,349,000 from former employees. The balance of Kshs.24,208,000 is therefore understated by the excluded amounts	The excluded receivables were inherited by AFA and accounted for by AFA. Commodities Fund reports in its financial Statements the assets it inherited. However, the Board of trustees has initiated a process to resolve the matter.	Board of Trustees	Not Resolved	December 2017
	3. The receivables from non-exchange transactions balance of Ksh 42,057,000 reflected in the statement of financial position as at 30 th June 2016, and as previously reported excludes Kshs. 1,837,694,000 due from the defunct Sugar Development Fund. Under the circumstances, the accuracy and completeness of the receivables from non-exchange transactions figure of Kshs. 42,057,000 as at 30 th June 2016 cannot be confirmed	The excluded amounts relates to levy receivables that were inherited by AFA. The AFA Act stipulates clearly that the levy income belongs to the authority. The Board of Trustees has Initiated a process to resolve the matter.	Board of Trustees	Not Resolved	December 2017
	4. As reported in the previous year, an amount of Kshs. 52,237,000 in respect of investments by the defunct Sugar Development Fund placed in Euro Bank which was put under receivership in the 1990's, has not been reflected and disclosed in the financial statements for the year ended 30 th June 2016. In addition, opening investment balance of Ksh. 4,203,000,000 as at 1 st July 2014 by the two institutions, namely Sugar Development Fund and Coffee Development Fund, that formed Commodities Fund have, similarly, not been reflected or disclosed in the financial statements. No satisfactory	The excluded investment and bank balances were inherited by AFA. There balances are there not included in Commodities Fund financial statements.	Board of Trustees	Not Resolved	December 2017

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	explanation has been provided for these omissions.				
	5. The statement of Financial position as at 30 th June 2016 and as disclosed under Note 18 to the financial statements reflects trade and other payables from exchange transactions totalling Kshs. 32,789,000 due to Boco-Tractor lease deposit and Fintech Kenya, respectively. This has resulted in understatement of payables figure of Ksh 32,789,000 includes Kshs. 1,983,000 described as unidentified deposits. Further, trade and other payables figure of Kshs.32, 789,000 includes, as disclosed under Note 22 to the financial statements, an amount of Kshs 18,000,000, being cash receipts from two Sugar companies for repayment of loans said to have been advanced by the Agriculture and Food Authority (AFA) during the year. However, no records were available with the Commodities Fund to enable crediting of the amount. In addition, the Crops Act, 2013 does not give the Agriculture and Food Authority the power to advance loans.	The payables relating to Boco and Fintech were inherited by AFA. Unidentified deposits arise in due course of Fund's business and their identification is on-going. The Board of trustees will has initiated a process to resolve existing matters including the Kshs.43million received by the Fund from sugar sectors for loans disbursed by AFA.	Board of Trustees		December 2017
	6. The statement of financial positions' cash and cash equivalents balances of Kshs. 1,517,593,000 as at 30 th June 2016 and as disclosed under Note 12(a) to the financial statements, includes Kshs. 21,167,000 and Kshs 35,000 held in Sidian Bank and Equity Bank respectively. The management has, however, not provided evidence of authority from Treasury for investing funds in these banks. Similarly, the short-term deposits, as disclosed under Note 12 (c) to the financial statements, include Kshs. 505,798,000, Kshs. 463,306,000 and Kshs. 223,027,000 held at Family Bank, Development Bank and Equity Bank respectively. The management has however not provided documentary evidence showing that the Board of Trustees and the management undertook due diligence on the banks before the funds were placed in these institutions.	Management provided authority to invest letters from treasury bearing the former Coffee Development Fund which was then authorized to invest surplus funds with the stated banks. Management has taken action to get new authority letters in the name of Commodities Fund.	Managing Trustee and Finance Manager	Not Resolved	September 2017



Nancy C. Cheruiyot
Interim Managing Trustee

Date: 12/03/18

XIX. Appendix 1: PROJECTS IMPLEMENTED BY THE FUND

Projects

Projects implemented and funded by the Fund

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

Status of Projects completion

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

	Project	Total project Cost Kshs '000'	Total expended to date Kshs '000'	Completion % to date	Budget Kshs '000'	Actual Kshs '000'	Sources of funds
1	Implementation of ERP	24,734	17,169	80%	45,000	24,734	Internal
2	Installation of Power Generator	2,510	1,506	90%	5,000	2,510	Internal

