

REPUBLIC OF KENYA



Enhancing Accountability

THE REPORT ASSEMBLY
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DATE: 16 FEB 2021

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Tuesday

TABLED
BY:

OF *leader of majority*

CLERK-AT
THE-TABLE:

Melge Lemura

THE AUDITOR-GENERAL

ON

COMMODITIES FUND

**FOR THE YEAR ENDED
30 JUNE, 2019**

**STATE DEPARTMENT FOR CROP
DEVELOPMENT**

PARLIAMENT
OF KENYA
LIBRARY



Commodities Fund

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2019

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 an agency under the Ministry of Agriculture, Livestock and Fisheries. It was established under section 9(2) of the Crops Act of 2013 (Amended in May 2016) and operationalized on 1st August 2014. It is the successor of the Coffee Development Fund and the Sugar Development Fund. The ComFund is represented by the Cabinet Secretary for Agriculture, Livestock and Fisheries who is responsible for the General Policy and strategic direction of the ComFund.

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

(b) Principal Activities

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

The mission of the ComFund is to provide affordable and accessible credit for development of crops sub-sector.

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

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

(c) Key Management

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

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

(d) Fiduciary Management

The Key management personnel who held office during the financial year ended 30th June 2019 and who had direct fiduciary responsibility were:

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

(e) Fiduciary Oversight Arrangements

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

i) Finance and Audit Activities

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

ii) Credit Administration

The ComFund has developed an elaborate credit policy that guides credit administration. Credit approvals is vested on committees of which the management credit committee approve loans up to Kshs.5million while approvals for loans exceeding Management limit are escalated to the Credit Committee of the Board.

iii) Overall Supervision by the Board

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

(f) ComFund Headquarters

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

(g) ComFund 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) ComFund Bankers

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


(i) Independent Auditors



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




(j) Principal Legal Adviser


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

II. BOARD MEMBERS

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

<p>2. Prof. Eric Okoth Ogur, PhD</p> 	<p>Professor Ogur was born on 17th December 1971. He received his PhD. in Engineering from University of Warwick in 2007.</p> <p>Prior to joining the Technical University of Kenya in 2011, he worked as a Research Fellow at the Warwick Manufacturing Group in the University of Warwick and as an Engineer with Proctor and Gamble GmbH in Frankfurt, Germany. Professor Ogur is also the Director, Centre for Engineering Innovation and Production.</p> <p>His other duties and responsibilities include: Reviewer, Kenya Journal of Technical and Vocational Education and Training, Member, Editorial Board, Africa Journal of TVET and Member, Board of Governors, Bushiangala Technical Training Institute where he is also the Chair of the Education and Training Committee.</p>
<p>3. Purity Karariet Sein</p> 	<p>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).</p> <p>She is a trained investigator coupled with management and social auditing skills (worked as An Anti- corruption Officer). She also worked as Law enforcement with Nema under the Ministry of Environment. She is a former Director of National Housing Corporation and Chairperson, Audit Committee.</p> <p>She is a National Security Committee Member on CPS, Ministry of Interior and National Government Coordination.</p>

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





<p>7. Moses Macharia Gakuru</p> 	<p>Moses M. Gakuru was born in 1959 and holds Masters in Business (Strategic Management), Bachelor's Degree in Business Administration, Diploma in Project Management and is CPA final.</p> <p>He is currently working as Assistant Accountant General at the National Treasury and has over 35 years work experience in Public Sector Financial Management Accounting and Reporting.</p> <p>He is a member of Institute of Certified Public Accountant of Kenya (ICPAK), Kenya Institute of Management (KIM) and Institute of Certified Investments & Financial Analysts (ICIFA).</p>
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III. BOARD COMMITTEES

Name of the Committee	Members
Finance, Staff & General Purpose Committee	<ol style="list-style-type: none"> 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	<ol style="list-style-type: none"> 1. Mr. Robert. M. Murithi, Chairperson 2. Prof. Eric Ogur, Member 3. Mr. Eliud Mathu, PS Rep, MoALF.
Audit and Governance Committee	<ol style="list-style-type: none"> 1. Ms. Purity Sein Karariet, Chairperson 2. Prof. Eric Ogur, Member 3. Moses Macharia Gakuru, PS Rep, The National Treasury.

IV. MANAGEMENT TEAM

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

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

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

9. Mr James Singa



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

V. CHAIRMAN'S STATEMENT

Introduction

It is with great pleasure that I present Commodities Fund's Annual Report and Financial Statement for the financial year ending 30th June 2019. In the past financial year under review, the ComFund has strived to fulfil its mandate in prudent lending, strengthening the operations and partnership with other stakeholders.

Economic performance

Real Gross Domestic Product (GDP) is estimated to have expanded by 6.3 per cent in 2018 compared to 4.9 per cent in 2017. The growth was attributable to increased agricultural production, accelerated manufacturing activities, sustained growth in transportation and vibrant service sector activities. Agricultural activities benefitted from sufficient rains that were well spread throughout the country.

The Agriculture, Forestry and Fishing sector growth accelerated from a revised growth of 1.9 per cent in 2017 to 6.4 per cent in 2018. The manufacturing sector expanded by 4.2 per cent compared to a revised growth of 0.5 per cent in 2017 mainly buoyed by increased agro-processing during the review period. (*KNBS Economic Survey, 2019*).

Agriculture sector

According to the Economic survey 2019, Growth in Agriculture Value Added at constant prices increased to 6.6 per cent in 2018 from 1.8 per cent recorded in 2017. The improved performance during the year under review was due to favourable weather conditions for both crops and livestock production, occasioned by the long rains in 2018.

Coffee, sugar, tea Subsectors

Production of tea and coffee recorded growths of 12.1 and 7.0 per cent, respectively, during the review period while the volume of fresh horticultural exports increased by 6.1 per cent to 322.6 thousand tonnes in 2018. However, the prices of tea and coffee declined by 15.5 per cent and 15.3 per cent to Kshs. 25,896.47 and Kshs. 40,286.41, respectively, per 100 kilogram.

The total domestic sugar production increased by 30.6 per cent from 376.1 thousand tonnes in 2017 to 491.1 thousand tonnes in 2018. (*KNBS Economic Survey, 2019*).

During the Financial year, the ComFund develop a new strategic plan that will be guiding the institution's strategic direction from 2018 through 2023. The plan lays more emphasis on Resource Mobilization, Credit management, legal and regulatory framework, Price Stabilization, Capacity building and Partnerships as well as operational efficiency.

Integrated Coffee Productivity Project

As the Lead Agency, the ComFund continued implementing Integrated Coffee Productivity Project, an innovative program meant to improve farmer income through increasing coffee acreage, coffee quality and quantity, while seeking to integrate friendly farm enterprises with coffee in order to reduce the coffee farmer income cycles.

Corporate performance overview

In effort to enhance efficiency, seven regional offices were opened in 2017/18 and the full impact of running them is being reflected in this current period. Secondly, the handover of the assets and liabilities of the former Sugar Development Fund was done during the year. The main assets handed over to ComFund was loan book that is largely non-performing. A large portion of the loans is held by collapsed and financially distressed sugar sector institutions. Majority of loans are secured by floating debentures with listed assets such as machinery, tractors, trailers, land, buildings, furniture and office equipment. Verification carried by the ComFund to establish status of security assets has revealed most of the machinery are obsolete while majority of moveable assets are either unserviceable, vandalized or missing. Parcels of land offered as securities were never charged in favour of the former Kenya Sugar Board and indeed others have been taken and occupied by third parties. The Board of Trustees' estimates Kshs.19.08 billion consisting of both principal and interest may never be recovered. This situation has therefore necessitated the ComFund to adopt new provisioning model which allocates sufficient allowances for non-performing debts. The model which is aligned with the prudential guidelines and the newly released IPSAS 41 was applied to compute provisions during the period. Cumulative provision computed totalled to Kshs.19,633,724,000 of which Kshs. 9,113,572,000 was charged in the current period. Resulting from charge, a deficit of Kshs.8,830,755,000 was reported and loan and interest asset declined from Kshs.9,989,861,000 reported in June 2018 to Kshs.787,183,000 in 2018/19. Going forward, management will focus on recovering the possibly recoverable debts and pursuing write offs of long outstanding debts.

The Board Composition

During the year under review, Hon. Mwangi Kiunjuri, the Cabinet Secretary, Ministry of Agriculture, Livestock and Fisheries appointed Hon. Samson Mwanja Okioma as the substantive chairman of the Commodities Fund's Board of Trustees for a period of three (3) years, through gazette notice no.: 13241, dated 14th December, 2018. The Board membership is as set out on page 5.

Challenges

Besides the initial lending capital granted by the Government, ComFund relies on internally generated revenue finance its operations and fulfil its mandate of providing credit to crops sector. Lack of adequate resources has inhibited its ability to expand credit beyond Coffee and Sugar subsectors.

Way forward

The ComFund will continue seeking strategic partnerships as well as requesting for resources from the government to supplement other internal efforts to grow its portfolio with an aim to introduce financing to other crop commodities, as per the strategic Plan.

Conclusion

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

Signed.....
Chairman, Board of Trustees

VI. REPORT OF THE MANAGING TRUSTEE

1.0 Introduction

Reflecting on last year, the ComFund's performance to a large extent mirrors what was happening across the sugar and coffee subsectors. The negative performance presented herein is a reflection of difficult operating environment that the ComFund has continued to operate in and to a large extent challenges encountered by the farming fraternity. As we mark our fifth year since operationalization of Crops Act, 2013, the ComFund is privileged to have fully fledged and visionary Board of Trustees, young and energetic staff and solid support from you our esteemed stakeholders. Allow me for a moment to highlight significant milestones in 2018/2019. Appointment of Chairman of the Board, launching of five year strategic plan, and finalization of hand over report on assets and liabilities of the former Sugar Development Fund. Having achieved the above, the ComFund is set to move the next level of actualizing its mandate.

Notwithstanding the above milestones, the ComFund is faced with other major challenges which include; Lack of corporate status, lack of lending capital for other scheduled crops, Collection of old non-performing debts inherited from Agriculture and Food Authority, financing of other scheduled crops as well and adequate staffing level. All the above are considered critical to achieving ComFund's mandate.

2.0 Financial Performance

During the period under review, income declined to **Kshs.549million** from **Kshs.625million** recorded in 2017/18. This 12% decline is attributed to myriad of factors among the poor coffee prices, unfavourable weather conditions, shortage of sugarcane which is the raw material required for sugar production and inertia caused by delayed privatization of government owned sugar mills. Resulting from above factors much of the expected loans repayment was not received and interest was frozen from those loans.

Secondly, the handover of the loan portfolio of the former Sugar Development Fund was done in March 2019 and after reviewing it status, it was noted the entire portfolio was non-performing and was not adequately provided for. A new provision model aligned prudential guidelines of central Bank and newly released prudential guidelines was adopted to enhance loan provisions.

Provisions were enhanced by additional **Kshs.9.113 million** in the year and resulting to operating deficit of **Kshs.8.831million**.

The year was also the first full year of running seven regional offices paying the salaries of the staff previously paid by AFA as well as having a fully constituted Board of Trustees. Resulting from the above adjustments, the operational cost of the ComFund without provisions were **Kshs. 267million** a growth of 26% compared to **Kshs.211million** incurred in 2017/2018. Moving forward, the ComFund will be consolidating gains from that expansion and will work towards stabilizing costs.

Following the adoption of the new provisioning model, the book provision for non-performing debt reached a high of **Kshs.19.633 billion** which wiped out the entire loan and interest portfolio to **Kshs.787million** compared **Kshs.9.99 billion** reported in 2017/2018. The on-going privatization of government owned sugar mills is expected to write off some debts from the

sector while the ComFund will also seek authority to write off uncollectable debts that may remain after privatization.

3.0 Credit Portfolio

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

Notwithstanding the challenges faced by the two subsectors, a total of **Kshs. 385.4 Million** was disbursed i.e **Kshs 262.9 million** and **Kshs. 122.5 million** to sugar and Coffee subsectors respectively. The funds were meant for Farm inputs, Crop Establishment, Processing and Purchase of Machinery geared towards increasing coffee and sugar productivity. During the same period the ComFund was able to recover loans amounting to **Kshs.904 million**. The greatest challenge remains collection of the out loans much of which is long overdue.

4.0 Human Capital

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

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

5.0 Risk Management and Internal Controls

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

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

6.0 The ISO 9001:2015 certification:

The ComFund has a functioning and continuously monitored Quality Management System. The QMS is monitored through management review meetings, internal and external audits to ensure it is fully implemented and produces value for all of Commodities Fund's internal and external stakeholders. The Quality Management System was certified under ISO 9001: 2015 in the last financial year and plans are underway for re-certification in the year 2019/20.

Quality Management System Policy

- The ComFund is committed to providing efficient and reliable credit facilities along the value chain to the satisfaction of the agriculture sector. The ComFund 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 ComFund recognizes that the institution's social, environmental and ethical conduct has an impact on its reputation.

The ComFund, 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 ComFund's CSR function and activities.

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

7.0 Outlook

ComFund remains an important enabler in the achievement of the Kenya Vision 2030, the "Big Four" Agenda, United Nations Sustainable Development Goals (SDGs) and Africa Agenda 2063 through supporting the crops sub-sector in the provision of affordable credit and advances across the value chain.

In order to ensure the ComFund has sufficient funds for lending, funding will be sought from the Government and other development partners. This will enable the Fund to build a capital base so as satisfy huge demand for coffee and sugar loans and also offer credit to other scheduled crops. Equipping of the existing regional offices with adequate infrastructure and personnel has been prioritized for effective service delivery. Authority has been sought to employ additional staff hence build the ComFund's capacity to deliver on its mandate. It is also anticipated that ComFund will achieve more visibility through gradual expansion of its regional

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office network and rigorous marketing and promotional activities planned in the medium term period.

At the same time, ComFund will endeavour to promote partnerships with other stakeholders with a view of harnessing opportunities and growing robust agricultural enterprises within the sectors that is mandated to serve.

Our achievements in 2018/19 would not have been possible without the dedication and expertise of our staff, to whom I extend my sincere thanks, Ministry of Agriculture, Livestock, and Fisheries and the Board of Trustees who 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

VII. CORPORATE GOVERNANCE STATEMENT

The Commodities Fund is always committed to the highest level of corporate governance. The Trustees through the ComFund's operational policies have realised an in-built self-regulating mechanism, which provides the framework to monitor and ensure statutory compliance. This has overtime fostered a culture that values and rewards the highest ethical standards and personal integrity. ComFund always strives to ensure that at all it's Trustees and staff act with integrity, honesty and professionalism. The Board of Trustees and Management have adopted sound corporate governance principles that have in turn ensured the setting of the right "tone at the top". This has in turn enforced an ethical business culture which governs the ComFund's operations. This statement therefore sets out the key corporate governance principles observed by ComFund and illustrates the practices and systems established by Government.

1.0 Board of Trustees

The ComFund's operations are governed by the direction of the Board of Trustees, who are responsible for:

- i) Providing policy guidelines and strategic decision-making;
- ii) Establishing and maintaining the ComFund's overall systems of planning, accounting and internal control as well as ensuring its integrity;
- iii) Setting the strategic direction of the ComFund;
- 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 ComFund is conducted in compliance with relevant laws, regulations and the legality of transactions;
- vi) Reporting the performance of the ComFund to stakeholders and ensuring the ComFund 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 ComFund and management;
- xi) Account for stewardship [efficient and effective use of entrusted resources] for the maximum benefit of the ComFund;
- xii) Ensuring that ComFund operates within ethical guidelines that enhance integrity, social accountability and the reputation and credibility of the ComFund;
- xiii) Maintaining adequate systems of financial management and internal control over the ComFund;
- xiv) Facilitating an extension of Auditors duties in regard to:
 - Reporting on whether the ComFund 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 ComFund's affairs is delegated to the Management team while the Board retains the overall responsibility as mandated by Law.

2.0 Board Structure and Processes

The Board of Trustees consists of members who contribute expertise based on their professional qualifications and business experience. The independent members of the Board were appointed and gazetted on the same date while the Government representatives were appointed later. This staggered appointments has provided a prudent avenue for succession. The Board in line with the ministry directive advertised, interviewed and filled all managerial positions including the Managing Trustee. The ComFund meets all the costs incurred by the Trustees during the various committees and Full Board meetings.

The Board has been inducted on the ComFund's various activities with trainings and seminars on corporate, legal and governance matters held in order to enhance their knowledge and skills in corporate governance issues over 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 committees for the period ended June 2019 in the first quarter of 2019/2020. 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 ComFund's business operations are carried out within an established framework of processes, procedures, systems and in line with the ComFund'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 ComFund's business objectives. As a key Management initiative, the ComFund 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 ComFund 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 ComFund endeavours to empower all staff regardless of their calibre.

The ComFund 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 ComFund 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.

VIII. MANAGEMENT DISCUSSIONS AND ANALYSIS

1.0 Highlights of Operational and Financial Performance:

The ComFund 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 ComFund is currently financing coffee and sugar sectors that have established capital fund of **Kshs. 1,675,206,000** and **Kshs. 13,554,512,000** respectively. The coffee capital fund was grant from government given to former Coffee Development Fund while the sugar fund was built up from sugar levy previously collected by former Kenya Sugar Board.

Summarized Statement of Financial Position.

Details	2017	2018	2019
	Ksh'000'	Ksh'000'	Ksh'000'
Gross Loans	15,848,973	16,631,768	16,239,299
Provisions on Non- Performing Loans	7,796,306	7,947,474	15,473,166
Net Loans	8,052,667	8,684,294	766,133
Gross Interest Accrued on Loans	3,445,336	3,878,244	4,181,607
Provision on Interest	2,534,150	2,572,677	4,160,558
Net Interest on Loans	911,186	1,305,567	21,049
Other Assets	1,315,641	1,139,552	1,568,793
Property plant and Equipment	62,929	73,973	32,061
Total Assets	10,342,423	11,203,386	2,388,036
Total Liabilities	66,007	20,782	26,606
Net assets	10,276,416	11,182,604	2,361,431
Capital Reserves	14,337,413	15,233,139	15,233,139
Revenue Reserves	(4,060,997)	(4,050,535)	(12,871,708)
Total Net Reserves	10,276,416	11,182,604	2,361,431
Summarize Performance Statement			
Income from Credit Activities	539,520	555,929	433,844
Provision charges on loans & Interest	2,277,390	405,624	9,113,574
Net income/(Deficit) from Credit Activities	(1,737,870)	150,306	(8,679,729)
Income from Non-Credit Activities	129,386	71,181	116,025
Operating Surplus (Deficit)	(1,608,484)	221,487	(8,563,704)
Operating Expenses	192,557	211,025	258,714
Net Surplus (Deficit)	(1,801,041)	10,462	(8,822,419)

The gross loan portfolio as at June 30th June, 2019 stood at **Kshs. 16,239 million** comprising of coffee **Kshs. 919million** (6%) and sugar loans of **Kshs. 15,712million** (94%). The portfolio is made up of loan products that support production, processing and value addition of the two crops. Cumulative book provision for the principal and interest were portfolio were **Kshs.15,473 million** and **Kshs.4,160 million** respectively. The resultant net loans and interest are **Kshs.766 million** and **Kshs.21 million** for principal and Interest respectively. This massive decline in loan assets as a result of new provisioning model adopted during the year that was necessitated by realization that most of loans held by the ComFund were uncollectable. As a matter of prudence, adequate provisions are needed to take care of the debts that may never be collected. Resulting from the provisioning model, a total of **Kshs.9,113 million** was charged as provision during the year bringing the book cumulative provision to **Kshs.19,633million**. The provision has reduced the loan asset to **Kshs.787million** compared to **Kshs.9,989 million** reported in 2017/2018.

During the year, the ComFund disbursed loans amounting to **Kshs. 385million** to borrowers within two sectors. The disbursements were broken into **Kshs. 122million** and **Kshs. 262 million** for coffee and sugar sectors respectively. This was 40% decline from Kshs. 638million disbursed in 2018. The decline was as a result of low loan uptake due to poor performance in both coffee and sugar sector.

The sugar sector which holds 94% of ComFund's loan portfolio continues to record poor performance due to myriad challenges. All government owned sugar millers halted their operations during the year due to sugar cane shortages and financial challenges. The Industry as a whole is also faced with funding challenges following the abolition of sugar levy that was the sole source of funding for the Industry. The general poor performance of the industry has continued to adversely affect the performance of commodities fund as a whole. The planned privatization of government owned sugar mills is expected to write offs some of the long outstanding debts in the sector thus alleviating the problem of indebtedness. It is envisaged that the new owners will start servicing the debts taken over by them thus improving loan repayment.

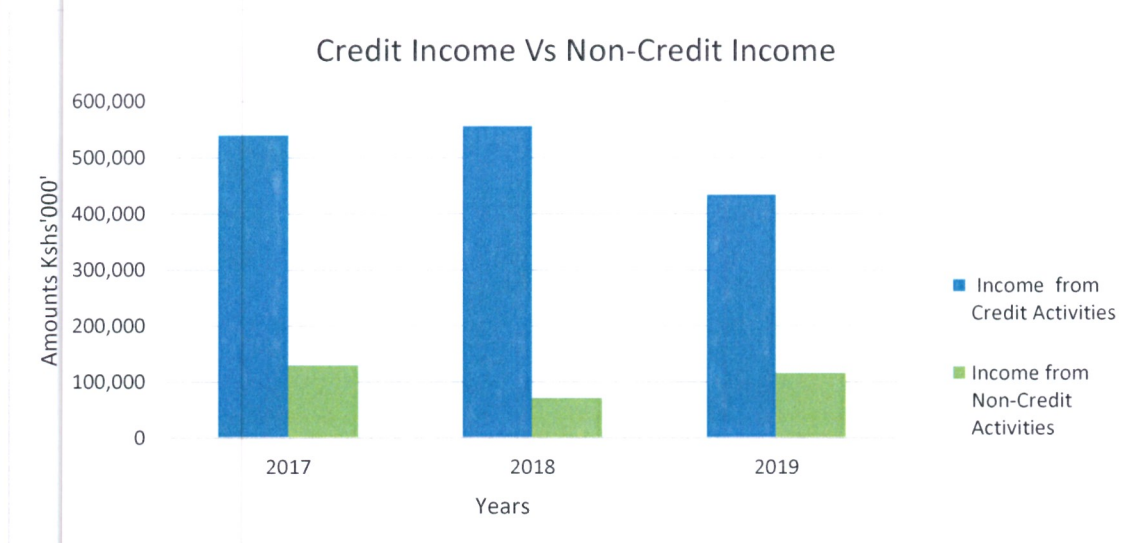
Coffee loans were also affected both the drought and low coffee prices in the international market in 2018/19 crop season thus affecting the repayment.

Other assets of the ComFund which mainly consists of cash and cash equivalent, capital items and other general debtors increased to **Kshs. 1.588 billion** from **Kshs.1,211 billion** reported in June 2018. Major growth was reported in cash and cash equivalent as a result of increased loan collection and low disbursement.

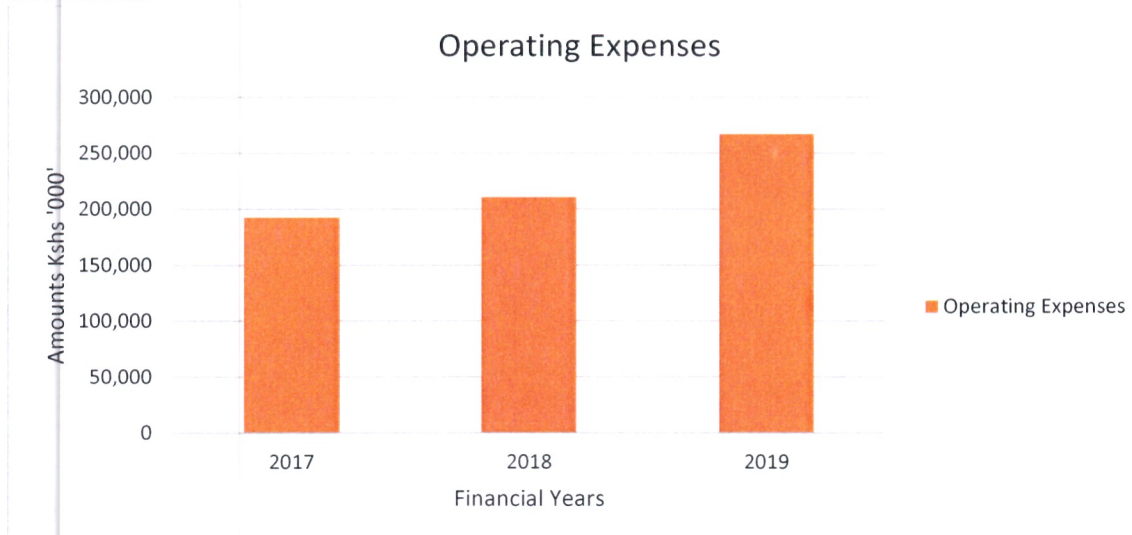
Revenues from core business of the ComFund recorded 14% decline from **Kshs. 505 million** in 2018 to **Kshs. 433 million** in 2019. The decline is attributable to interest freezing on Non-performing loans on both Coffee and Sugar portfolio. The loan uptake was equally very low compared to previous period.

Revenues from non- credit activities grew by 68% from **Kshs. 69 million** in 2018 to **Kshs. 116 million** in 2019. The growth was a result of increased cash for investment from loan repayments and decrease loans disbursement.

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Operating expenses of the ComFund have grow by 23% to **Kshs. 259 million** in 2019 from **Kshs. 211million** reported in 2018. The increase is attributed to the operationalization of the seven regional offices in order to bring services closer to the ComFund’s customers. The expected return will be realized in coming years through revenues generated from increased loan uptake and repayment. In December 2017, Board of Trustees advertised, interviewed and filled all management positions including that of the Managing Trustee. This was accompanied by salary adjustments for the absorbed staff. Two senior staff who were receiving their salaries from Agriculture and Food Authority were absorbed and ComFund assumed payment of their salaries from March 2018. Later in the year two more staff not in the senior management and who still received their salaries from Agriculture and Food Authority were handed over to ComFund in December 2018 and the ComFund has since met their salaries and remunerative allowances.



The ComFund ended the year with a net deficit of **Kshs. 8.822billion** after charging provision amounting to **Kshs.9.113 billion**. Consequently, the accumulated deficits increased to **Kshs. 12.871billion** from **Kshs. 4.050 billion** reported in June 2018.

The ComFund has since its inception operated from its Headquarters in 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 ComFund has already operationalized seven regional offices and plans to enhance the current human resource capacity by thirteen staff mainly in the core business of the ComFund. The regional offices will continue to promote ComFund's products, appraise and recommend credit requests and monitor the loans. In order to discharge its mandate as stipulated in the Crops Act 2013, ComFund will lobby for capital to finance two additional crops.

In comparison to other financial service providers, the ComFund's interest rates of between 5% to 10% is lower than those of other players who are mainly commercial banks and Saccos. The ComFund is capitalizing on this competitive advantage to reach and serve farmers who avoid the former due to high interest rate and rigidity in loan repayment patterns. Demand for crop development loans more so crops not currently financed by the ComFund remains high creating future business opportunity for the ComFund. The greatest challenge faced by the ComFund is to secure reliable and stable Funding capital to lend to the envisaged farming fraternity.

3.0 Compliance with statutory requirements

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

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

4.0 Existing and potential court cases/ defaults.

The ComFund currently has a litigation against it which involves a spousal consent dispute on a property secured against a loan with the exposure estimated at around **Kenya shillings Eighteen Million Nine Hundred Ninety Seven Eight Hundred Forty Six. (Kshs 18,997,846).**

5.0 Key Projects investments decisions that the ComFund implemented

The ComFund had budgeted to invest a total of Kshs. 28,387,000 in various assets during the year. The budgeted assets include; Office furniture Kshs. (2,480,000), Equipment (Kshs. 300,000), Motor vehicles (Kshs. 5,007,000), Other ICT Equipment and facilities Kshs. 20,600,000. All the above assets were financed from internally generated funds as approved through annual budget estimates.

The ComFund was able to acquire, ICT Equipment and facilities Kshs. 9,464,377 million, Furniture Kshs 486,787 and Office Equipment Kshs. 518,344.

6.0 Major Risks Facing the ComFund

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

Subsequently, the ComFund identifies and manages risk through in-house risk review enhanced by internal and external audits. The ComFund has in place a system of internal controls with defined procedures, 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 ComFund 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 ComFund'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 ComFund will not face difficulties meeting its current and future financial obligations or financial liabilities as they fall due.

The ComFund enters into lending agreements subject to availability of funds and investments in major assets is budgeted for and purchased when the ComFund 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 ComFund 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 ComFund 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. Detailed of analysis of credit risk exposure is disclosed under note 24 (i) and pages 34 to 37.

iii) Interest rate risk

Interest rate risk is potential of the ComFund 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 ComFund. The ComFund 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 ComFund 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 ComFund is in the currently implementing an ERP that will integrate all its processes in order to mitigate the exposure to such attacks and errors.

7.0 Material arrears in statutory/financial obligation

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

8.0 The entity probity and serious governance issues

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

IX. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

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

This is the basic principle that informs the ComFund's CSR function and activities: The ComFund identifies its CSR activities to satisfy not only the good management of the environment and social needs of the ComFund's neighbours and general public, but also to promote national values, national cohesion and human dignity.

During the financial year under review, the ComFund developed a CSR policy, which was approved by its Board of Trustees, to henceforth guide on how the ComFund shall be identifying and implementing various projects in support of the community as a corporate citizen.

In addition, the ComFund sponsored its staff members to take part during the Standard Chartered Marathon on 27th October 2018. The Marathon is aimed at raising funds for the visually impaired children in need of medical procedures in the community, under the theme: 'Seeing is believing'.

Also the ComFund supported Children with heart conditions to access treatment by sponsoring its staff members to participate in the 25th May 2019 Mater Heart run.

In an effort to care for the environment among the farming community while supporting the government's effort to deliver the big Four Agenda, the ComFund implemented the presidential directive dated 4th June 2018 on *Inclusion of Trees Planting in Corporate Society Responsibility (CSR) activities* by donating 37,500 seedlings to farmers societies in 6 counties: Homa bay, Bomet, West Pokot, Makueni, Meru and Bungoma, benefitting 250 farmers.

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

X. REPORT OF THE DIRECTORS

The Board of trustees submit their report together with the audited financial statements for the year ended ending 30th June 2019 which shows the Commodities Fund affairs.

1.0 Principal activities

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

2.0 Results

The results of the ComFund for the year ended June 30, 2019 are set out on page 30.

3.0 Trustees

The Trustees who served for the year ended 30th June 2019 are shown on pages 4-7.

4.0 Auditors

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

By order of the Board.


Nesline Gechuki Okiko
Legal Manager

Date: 10th / 03 / 2020

XI. STATEMENT OF TRUSTEES' RESPONSIBILITIES

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




The Trustees are responsible for the preparation and presentation of the *ComFund's* financial statements, which give a true and fair view of the state of affairs of the *ComFund* for and as at the end of the financial year (period) ended on June 30, 2019. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the *ComFund*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the *ComFund's* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the *ComFund's* financial statements give a true and fair view of the state of *ComFund's* transactions during the financial year ended June 30, 2019, and of the *ComFund's* financial position as at that date. The Trustees further confirm the completeness of the accounting records maintained for the *ComFund*, which have been relied upon in the preparation of the *ComFund's* financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

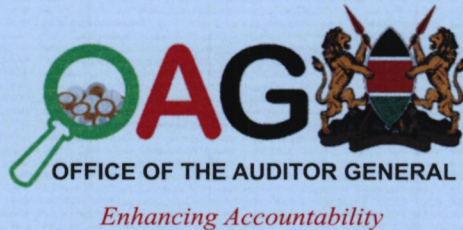
The *ComFund's* financial statements were approved by the Board of Trustees on 19th September, 2019 and signed on its behalf by:

		
Hon Samson Okioma Chairman Board of Trustees	Henry Huka Duba Chairperson Finance, Staff & General Purpose Committee	Purity Sein Karariet Chairperson Audit Committee

**XII. REPORT OF THE INDEPENDENT AUDITORS ON THE COMMODITIES
FUND**

REPUBLIC OF KENYA

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Anniversary Towers
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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON COMMODITIES FUND FOR THE YEAR ENDED 30 JUNE, 2019 – STATE DEPARTMENT FOR CROP DEVELOPMENT

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Commodities Fund set out on pages 29 to 66, which comprise of the statement of financial position as at 30 June, 2019, statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of the Commodities Fund as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and do not comply with the Crop Act, 2013 (Amended in May 2016) and the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1. Loans and Related Issues

1.1 Variance Between Loans Repaid and Loans Received

The statement of financial position reflects current receivables from exchange transactions-Loans and advances of Kshs.343,020,000 (2018: 829,483,000) and long-term receivables from exchange transactions-Loans and advances of Kshs.423,113,000 (2018: Kshs.7,854,811,000) as disclosed under Note 16(iii) and 16(iv) respectively. However, an analysis of extracts of loan repaid schedules reflects total loan repayments of Kshs.3,410,147,914.29 while the total bank receipts of loan repayments by the farmers amounted to Kshs.2,003,326,274.91, resulting to a difference of Kshs.1,406,821,639.38. The loan movement which is largely attributable to provision for loans and advances during the year amounted to Kshs.9,113,571,000 against total opening loan balance of Kshs.8,684,294,000.

Further, the bank statements did not include a unique loan numbers or identifier against repayment receipts. It is not possible to corroborate loan repayments in the system with the loanees' bankings making it difficult for reconciliation to be done.

In the circumstances, it has not been possible to determine the loan and advances issued and repaid on the basis of the provisions made during the year.

1.2 Long Outstanding Reconciliation Loan Balances

The statement of financial position reflects current and long-term receivables from exchange transactions-Loans and advances of Kshs.343,020,000 and Kshs.423,113,000 respectively and as disclosed under Note 16(iii) and 16(iv). An extract of amount received in the system and the bank receipts reflects unidentified receipts amounting to Kshs.13,463,098.91 which dates back to 2017 when the Management migrated to the new system. However, Management has not investigated what the balances relate to or made recommendations for clearance from the books. No explanation was provided for the non-reconciliation and identification of farmers' loan repayment.

1.3 Freezing of Interest on Loans

The statement of financial position reflects current and long-term receivables from exchange transactions-Loans and advances of Kshs.343,020,000 and Kshs.423,113,000 respectively and as disclosed under Note 16(iii) and 16(iv). A review of extracted loans data revealed that the Fund had frozen interest on 62,731 loans with outstanding principal balance of Kshs.261,053,043 and interest balance of Kshs.141,997,009. The Fund does not have proper guidelines or policy to regulate the freezing of interests. The loans included 63 loans on coffee portfolio with a total balance of Kshs.91,451,530 issued during the year, out of which 34 loans with a loan balance of Kshs.59,593,738 had the interests frozen.

1.4 Loans with Outstanding Balances Reflected as Cleared in the System

The statement of financial position reflects current and long-term receivables from exchange transactions-Loans and advances of Kshs.343,020,000 and Kshs.423,113,000 respectively and as disclosed under Note 16(iii) and 16(iv).

The above balances excludes the principle loan balance amounting to Kshs.595,062,000 which has been cleared. The above loan balance had accumulated interest of Kshs.2,203,538,506 out of which only Kshs.7,417,810 had been repaid resulting to Kshs.2,196,120,696.52 cleared without supporting documents.

No explanation was provided on how the accumulated interest was cleared and the corresponding repayments.

1.5 Amortization of Loans

The statement of financial position reflects current and long-term receivables from exchange transactions-Loans and advances of Kshs.343,020,000 and Kshs.423,113,000 respectively and as disclosed under Note 16(iii) and 16(iv). The Fund's credit policy manual provides that for all loans disbursed, repayment would be on a reducing balance method. However, it was observed that the management treated loans differently with

some loan balances being amortized contrary to provisions of the credit policy. Approved loans totalling Kshs.1,769,626,283 with balances totalling to Kshs.967,028,087 were amortized using straight line method during the loan period contrary to the credit policy manual.

Under the circumstances, the accuracy and completeness of the account balances of Kshs.343,020,000 reflected in the statement of financial position could not be confirmed.

2. Write-off of Receivables from Non-Exchange Transactions

As disclosed under Note 17 to the financial statements, the statement of financial position reflects a balance of Kshs.45,455,000 under receivables from non-exchange transactions, which includes an amount of Kshs.34,753,000 indicated as funds held by intermediaries yet the amount was fully provided for during the year. Examination of records held by the Fund revealed that these loans were disbursed to farmers through intermediaries. However, no details were provided on the specific farmers given the loans by the intermediaries. In addition, it is not clear how the provision was made and how the loans will be collected. Further, management made provision on receivables from non-exchange contracts of Kshs.34,753,000 without any justifiable reason. The validity of the provision could not therefore be confirmed.

3. Misclassification of Expenditure

As disclosed under Note 9 to the financial statements, the statement of financial performance reflects an amount of Kshs.114,432,000 in respect to employee costs. A review of the account revealed that the above balance which includes travel, accommodation, subsistence and other allowances amounting to Kshs.25,135,049. The above expenses are operational expenses and do not relate to employee costs.

In the circumstances, the employee costs have been overstated by Kshs.25,135,049 while the general expenditure has been reduced by a similar margin.

4. Revenue Shortfall and Unauthorized Expenditure

The statement of comparison of budget and actual amounts reflects approved receipts budget and actual on comparable basis amount of Kshs.853,753,000 and Kshs.549,870,000, respectively, resulting to shortfall in receipts of Kshs.303,883,000 or 36%. Further, the Fund's approved expenditure budget was Kshs.757,577,000 while the actual expenditure was Kshs.9,372,289,000, resulting to over-expenditure of Kshs.8,614,712,000 or 1137%. There is no evidence that the Management sought for any authorisation to overspend excessively over an above the approved budget.

The underfunding and underperformance affected the planned activities and has impacted negatively on service delivery to the public.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Commodities Fund Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable

to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matters

Unresolved Prior Year Matters

In the audit report of the previous year, a number of issues were raised under the Report on Financial Statements. However, Management has not resolved the issues or disclosed all the prior year matters as provided by the Public Sector Accounting Standards Board templates and firmed by The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Legal Case by Kibos Sugar & Allied Industries

The receivables from exchange transactions - loans, advances and interests' balances totaling Kshs.787,183,000 as at 30 June, 2019 includes loan advances amounting to Kshs.133,972,375 advanced to Kibos Sugar & Allied Industries as detailed below:

Client Name	Loan Account	Approved Amount (Kshs.)
Kibos Sugar & Allied Industries	LN_00159131	53,588,950
Kibos Sugar & Allied Industries	LN_00159132	40,191,712
Kibos Sugar & Allied Industries	LN_00159133	40,191,712
Total		133,972,375

It was noted that the Company has never repaid any of the stated loans. Further the Company sued the Commodities Fund and the Agriculture and Food Authority in the High Court of Kisumu vide Petition No. 19 of 2019, in which it denied receiving any money by the Fund. However, the petitioner acknowledged that the loans were instead advanced by the Kenya Sugar Board and not Commodities Fund. It is not clear how the loan will

be paid and why the Company resorted to legal action. Further no accrued interest has been made on the amount advanced.

In the circumstances, the Fund may not realise the amount classified as loans.

2. Irregular Procurement of General Insurance Services

The provision of general insurance services was procured vide Tender No. COMFUND/T/02/2018/19 dated 12 March, 2019 and thirteen bidders responded. The evaluation was based only on premium and excess on the quoted amount. The lowest bidder as per the evaluation was awarded the contract for a sum of Kshs.861,323.

The criteria set by the procurement unit was that, the evaluation and final ranking of the bid would consider the scope of the cover in relation to the premium which was to have a weight of 70% and excess which was to have a weight of 30%. The cost of items not priced would be assumed to be included in other costing in the proposal. The award was to be made to the lowest evaluated bidder.

The Procurement Act provides for both technical and financial evaluation with regard to such services. It was noted that only financial evaluation was done. It was therefore not possible to ascertain the capability of the winning firm without assessing its technical capability.

In the circumstances, the Management contravened Section 46(4)(a) of the Public Procurement and Asset Disposal Act, 2015.

3. Employee Costs - Staff Establishment Shortfall

The Fund had forty-four employees against staff establishment of one hundred and fifty-four during the year under review, resulting in a shortfall of staff totalling to one hundred and ten (110) or 71%. The Management had serious challenges of staffing especially in procurement, transport and credit control units.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, because of the significance of the matters discussed in the Basis for Conclusion on Internal Controls, Risk Management and Governance section of my report, based on the audit procedures

performed, I confirm that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. Functionality of the Board of Trustee

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

2. Weakness of the Internal Controls

2.1. Missing Numbers in Loans Issues

The Fund operated through a Microsoft Navision System in the daily operations. However, examination of records on the loans issued revealed a series of Loan Number (LN)_00000001 to LN_00159265. However, it was noted that there were 17,676 gaps in the issuance of the loans which could not be accounted for. The gaps in the loan series were neither invalidated nor cancelled in the system. No documentary evidence was provided to show how the missing gaps in loans issuance arose. The gaps in the system could have led to issuance of some loans and deleting of the same loan amounts without a trail of repayments.

2.2. Issuance of Multiple Account Numbers to Loan Account Holders

Examination of the farmers' loans accounts and identification numbers revealed that the Commodities Fund was issuing different account numbers to the same farmer. A sample of forty-seven loans accounts had same identification number but different accounts. No explanation was provided for issuance of different account numbers to the same farmer.

2.3. Missing Loan Records

An analysis of the Navision System (Loan Management System) revealed missing loan records totalling 30,027 which might have been deleted from the system without explanation. These series were system generated and unique for each loan issued. The analysis of these numbers revealed gaps in numbering. In addition, no record was provided to show how much those loan records represented since they were deleted completely from the system. No explanation was provided for the missing loan records which could translate into loss of funds.

In the circumstances there was no audit trail of the number of loans issued to the farmers.

3. Ineffective Debt Recovery

The statement of financial performance reflects general expenses totalling Kshs.9,197,022,000 and which includes provision for bad debts of Kshs. 9,113,574,000 as disclosed under Note 13 to the financial statements. Although the loan balances have

been outstanding for a long time, and the provision was made as per the Fund's policy, no meaningful effort appears to have been made towards full recovery of the loan balances.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standard requires that I plan and perform the audit to obtain assurance about whether processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

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

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Fund or to cease operations.

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

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

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

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but

is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

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

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

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

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


Nancy Gathungu
AUDITOR-GENERAL

Nairobi


01 February, 2021

XIII. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30TH JUNE 2019

	NOTES	2018/19	2017/18
		<u>Kshs '000</u>	<u>Kshs '000</u>
Revenue			
Revenue from exchange transactions			
Finance income - External investments	6	545,200	620,136
Other income	7	<u>3,719</u>	<u>4,571</u>
Total revenue		<u>548,918</u>	<u>624,706</u>
Expenses			
User of Good & Service	8	6,706	9,094
Employee cost	9	89,297	96,794
Remuneration of Trustees	10	27,050	20,068
Depreciation and amortization expense	11	21,566	18,068
Repairs and maintenance	12	5,512	7,106
General Expenses	13	<u>9,222,157</u>	<u>487,875</u>
Total expenses		<u>9,372,288</u>	<u>639,005</u>
Other gains / (Losses)			
Gain on Sale of Assets	14	951	2,403
Surplus/(Deficit) for the period		<u>(8,822,419)</u>	<u>(11,896)</u>


Managing Trustee
Nancy C. Cheruiyot

Date..10th/03/2020


Finance Manager
Silas N. Njagi
ICPAK No.5078

Date.....

10th/03/2020



Chairman, Board of Trustees
Hon.Samson Okioma


Date..10th/03/2020


XIV. STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2019

	Notes	2018/2019 <u>Kshs '000</u>	2017/2018 <u>Kshs '000</u>
Assets			
Current assets			
Cash and cash equivalents	15	1,369,530	945,714
Receivables from exchange transactions-Interest Receivable on Investment	16(i)	11,375	8,613
Receivables from exchange transactions-Interest on Loans & Advances	16(ii)	21,050	1,305,567
Current portion of Long-term receivables from exchange transactions-Loans and advances	16(iii)	343,020	829,483
Receivables from non-exchange transactions	17	45,455	47,184
Inventory- Consumerbles	18	<u>1,085</u>	<u>640</u>
Total Current Assets		<u>1,791,515</u>	<u>3,137,202</u>
Non-current assets			
Property, plant and equipment	19 (i)	32,061	47,698
Intangible Assets- Software	19(ii)	31,945	26,276
Investments	20	109,402	137,400
Loan Term Receivables From Receivables from Exchange Transaction -Loans and Advances	16(iv)	<u>423,113</u>	<u>7,854,811</u>
Total non-current assets		<u>596,521</u>	<u>8,066,184</u>
Total assets		<u>2,388,036</u>	<u>11,203,386</u>
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions(Creditors and accruals)	21	26,606	20,782
Refundable Deposits From Customers			
Payment Received in Advance			
Total liabilities		<u>26,606</u>	<u>20,782</u>
Net assets		<u>2,361,431</u>	<u>11,182,604</u>
Reserves	22	15,233,139	15,233,139
Accumulated surplus	23	<u>(12,871,708)</u>	<u>(4,050,535)</u>
Total net assets and liabilities		<u>2,361,431</u>	<u>11,182,603</u>

The Financial statement set out on pages 30 to 64 were signed on behalf of the Board of Directors by:



Managing Trustee
Nancy C. Cheruiyot
 Date: 10th/03/2020



Finance Manager
Silas N. Njagi
ICPAK No.5078
 Date: 10th/03/2020



Chairman, Board of Trustees
Hon. Samson Okioma
 Date: 10th/03/2020

XV. STATEMENT OF CHANGES IN NET ASSETS
For the year ended 30 June 2019

	Attributable to the owners of the controlling entity					
	Notes	Reserves				Total
		Revolving fund Sugar	Revolving Fund Coffee	Revaluation Reserve	Revenue Reserve	
	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Balance As At 01.07. 2017	12,658,786	1,675,206	3,421	(4,060,997)	10,276,416	
Loans Taken Over From AFA	895,726	-	-	-	895,726	
Surplus for the year	-	-	-	10,462	10,462	
Balance As At 30 JUNE 2018	<u>13,554,512</u>	<u>1,675,206</u>	<u>3,421</u>	<u>(4,050,535)</u>	<u>11,182,603</u>	
Balance As At 01.07. 2018	13,554,512	1,675,206	3,421	(4,050,535)	11,182,603	
Adjustment of Overstated Amortization Expense in FY2017.18	-	-	-	1,247	1,247	
Surplus for the year	-	-	-	(8,822,419)	(8,822,419)	
Balance As At 30 JUNE 2019	<u>13,554,512</u>	<u>1,675,206</u>	<u>3,421</u>	<u>(12,871,708)</u>	<u>2,361,431</u>	



Managing Trustee
Nancy C. Cheruiyot
10th / 05 / 2020
Date.....


Finance Manager
Silas N. Njagi
ICPAK No.5078
Date.....
10th / 05 / 2020



Chairman, Board of Trustees
Hon. Samson Okioma
Date.....
10th / 05 / 2020

XVI. STATEMENT OF CASH FLOWS AS AT 30TH JUNE 2019

Cash generated from operations	Notes	2018/2019	2017/2018
		<u>Kshs '000</u>	<u>Kshs '000</u>
Surplus/(Deficit) for the year before tax		(8,822,419)	10,462
Adjusted for:			
Depreciation	10	21,566	18,068
Non-cash adjustment to equity		(9,113,573)	(405,624)
Contributed assets			
Impairment			
Gains and losses on disposal of assets		(951)	(2,403)
Contribution to provisions		9,113,574	405,624
Contribution to impairment allowance			
Finance income-External investment- Non Exchange Transactions	6(i)	(115,075)	(68,778)
Finance cost			
Working capital adjustments:			
Decrease in current & non-current receivables from exchange transaction - loans and Advances		7,918,161	(631,627)
Decrease in current receivable from exchange and non - exchange transaction.		1,283,484	(389,814)
Decrease in deferred income			
Decrease in trade and other payables from exchange transactions (Creditors & Accruals)		5,822	(45,225)
Increase in inventory- Consumables		(445)	116.31
Net cash flows from operating activities		<u>290,146</u>	<u>(1,109,201)</u>
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets	19	(10,352)	(29,112)
Proceeds from disposal of Assets		951	2,403
Investment-HFCK Mortgage Scheme	20	27,997	(60,900)
Finance Income -External Investment -non Exchange Transactions	6(i)	115,075	68,778
Net cash flows used in investing activities		<u>133,671</u>	<u>(18,831)</u>
Cash flows from financing activities			
Proceeds from borrowings			
Repayment of borrowings			
Loans Taken Over From AFA		-	895726
Capital grants from government		-	-
Net cash flows used in financing activities		-	895,726
Net increase/(decrease) in cash and cash equivalents		423,816	(232,306)
Cash and cash equivalents as at 1 July 2018		945,714	1,178,021
Cash and cash equivalents at 30 June 2019	15	<u>1,369,530</u>	<u>945,714</u>


Managing Trustee
 Nancy C. Cheruiyot

Date: 10th/03/2020


Finance Manager
 Silas N. Njagi
 ICPAK No.5078


Date: 10th/03/2020


Chairman, Board of Trustees
 Hon. Samson Okioma

Date: 10th/03/2020

XVII. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

S/N	ITEM DESCRIPTION	Original budget 2018-2019 Kshs '000	Adjustments 2018-2019 Kshs '000	Final budget 2018-2019 Kshs '000	Actual on comparable basis 2018-2019 Kshs '000	Performance difference 2018-2019 Kshs '000	% change
1.0	Revenue						
1.1	Rendering of Services	677,678	-	677,678	433,845	(243,833)	-36%
1.2	Government Grants- Recurrent	126,575		126,575	-	(126,575)	100%
1.3	Finance Income	49,500		49,500	115,075	65,575	132%
1.5	Gain on Disposal of Asset	-		0	951	951	100%
	Total Revenue	853,753		853,753	549,870	(303,883)	-36%
	Expenses						
2.0	Compensation of Employees	197,029		197,029	89,297	107,732	55%
3.0	Goods and Services	15,177		15,177	6,706	8,471	0%
4.0	Finance Cost	756		756	868	(112)	2%
5.0	Rent Expenses	10,970		10,970	11,027	(57)	3%
6.0	Other Payments					-	0%
	a) Board Expenses	29,902		29,902	27,050	2,852	21%
	b) Credit & Field Expenses	363,394		363,394	9,134,837	(8,771,443)	66%
	c) Corporate Communications	12,516		12,516	9,105	3,411	0%
	d) Human Resource Costs	24,462		24,462	14,604	9,858	-8%
	e) Audit Expenses	7,382		7,382	5,419	1,963	8%
	f) Finance & Administration Costs	50,465		50,465	46,298	4,167	30%
	e) Repairs and Maintenance Costs	16,050		16,050	5,512	10,538	94%
	e) Depreciation Costs	29,474		29,474	21,566	7,908	6%
	Total Expenditures	757,577	-	757,577	9,372,289	(8,614,712)	64%
	Surplus For the Period	96,176	-	96,176	(8,822,419)	8,310,829	


Managing Trustee
Nancy C. Cheruiyot

Date: 10th/03/2020


Finance Manager
Silas N. Njagi
ICPAK No.5078

Date: 10th/03/2020


Chairman, Board of Trustees
Hon. Samson Okioma

Date: 10th/03/2020

NOTES EXPLAINING THE VARIANCES BETWEEN THE BUDGET AND THE ACTUAL AMOUNTS

1. Revenues

The internally generated income which include interest on loans and investments amounted to Kshs. 549,870,000 against budget of Kshs. 853,753,000 falling short of the budget by Kshs. 303,883,000. The shortfall is attributed to a recurrent grant of Kshs 126M expected from GoK for integrated Coffee Productivity Project that was not received. Secondly, the ComFund continued to freeze interest on non-performing loans hence reducing interest income expected from such loans. However Finance income recorded a surplus of Kshs 65,575,000 since more fund meant for disbursement to the customers were invested a waiting finalization of disbursement processes.

Other incomes include loan processing fee and gain on disposal of an asset which amounted to Kshs. 4,670,000. The loan processing fee amounted to Kshs. 3,719,000 while gain on disposal of assets amounted to Kshs. 951,000.

2. Compensation of Employees

The Actual personnel expenditure was Kshs. 89,297,000 against budget of Kshs. 197,029,000 resulting to positive variance of Kshs. 107,732,000. The huge variance under the vote was due to the fact that the budgeted salary adjustments were not implemented pending approvals by the concerned state agencies. Secondly the ComFund had budgeted to employ 14 additional staff that was not achieved since authority to employ was not granted.

3. Goods and Services

The Good and services expenses includes Electricity, Water ,Security, Professional Fee and Subscriptions which amounted to Kshs. 6,706,000 against budget of Kshs. 15,177,000 resulting to positive variance of Kshs. 8,471,000 .The positive variance is attributed to less spending on water, electricity and security in the regional offices. The ComFund had projected to contract security services for regional offices but that was not done for all offices since some are in secured building. Legal cost vote incurred Kshs. 562,000 against a budget of Kshs. 5,079,000 resulting to a positive variance of Kshs. 4,517,000. The variance is attributed to the fact that the one of the court case budgeted for was not concluded as anticipated.

3. Board expenses

The Board expenses amounted to Kshs. 27,050,000 against budget of Kshs. 29,902,000 resulting to positive variance of Kshs. 2,852,000. The positive variance is as result of proper planning of the board activities.

4. Credit Management Expenses

The actual Credit Management expenses were Kshs. 9,134,837,000 against a budget of Kshs. 363,394,000 resulting to a negative variance of Kshs. 8,771,443,000. This huge negative variance was as a result huge provision for Non-performing loan debts. Provisions amounted to Kshs. 9,113,573,000 against the budgeted figure of Kshs. 200,366,000. The ComFund reviewed and adopted new provision model in line with the new IPSAS 41. The standards provides for a single forward-looking expected credit loss provisioning model applicable to loan receivable subject to impairment testing. With the new model almost all loans were ranked in the loss category that attracts 100% provision. The Sugar sector in particular performed very poorly where loans in government owned millers and out grower institutions are categorized as loss. The coffee Loans given to through intermediaries are also categorized as loss.

5. Corporate Communications

Corporate communications vote incurred Kshs. 9,105,000 against a budget of Kshs. 12,516,000 resulting to positive variance of Kshs.3,411,000. The variance is a result of cheaper cost relating to Publicity Materials, Branding & Advertising activities.

6. Human Resources

Human resource vote comprising of training, staff welfare and consultancies incurred a total of Kshs. 14,604,000 against budgeted amounts of Kshs. 24,462,000 resulting to a positive variance of Kshs. 9,858,000. The variance was mainly as a result of savings from trainings, seminars and consultancies expenditures.

7. Finance and Administrative Cost

Finance & Administrative cost amounted to Kshs. 46,298,000 against a budget of Kshs. 50,465,000 resulting to a positive variance of Kshs. 4,167,000. This positive variance is as result of savings in international travels and corporate planning and strategic planning expenses

8. Repairs and Maintenance Costs

The ComFund Repairs and Maintenance Costs budget was Kshs 16,050 000 while the actual amount incurred stood at Kshs 5,512,000. The positive variance of Kshs 10,538,000 was as result of under expenditures on ICT Related Licenses as well as less cost relating to motor vehicle maintenance since the fleet is relatively.

XVIII. NOTES TO THE FINANCIAL STATEMENTS

1. General Information

Commodities Fund is established by and derives its authority and accountability from Crops Act 2013 Section 9 (Amended in May 2016). The ComFund is wholly owned by the Government of Kenya and is domiciled in Kenya. The ComFund's principal activity is to provide sustainable, affordable and accessible credit and advances to farmers.

2. Statement of Compliance and Basis of Preparation

The ComFund's financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, Plant and Equipment, Marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements is in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying Commodities Fund accounting policies.

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

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

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

3. Adoption of New and Revised Standards

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2019

Standard	Impact
IPSAS 41: Financial Instruments	Applicable: 1st January 2022 The objective to issue IPSAS 41 is to establish principles for the financial assets and liabilities and will present relevant and useful information to the users of financial statement for their assessment of the amounts, timings and uncertainty of an entity's future cash flows.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Standard	Effective date and impact:
	<p>Applicable: 1st January 2022: IPSAS 41 provides users of financial statements with more useful information than IPSAS 29 by:</p> <ul style="list-style-type: none"> -Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flow and objective for which the asset is held; -Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and -Applying an improved hedge accounting model that broadens the hedging arrangement in a scope of the guidance. The model develops a strong link between entity's risk management strategies and accounting treatment for instruments held as part of the risk management strategy.

ii) Early adoption of standards

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

Impact of adoption

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

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

Application of the above model as at 30th June 2018 resulted provisions as illustrated follows:

Commodities Fund
Annual Report and Financial Statements for the Year ended 30th June 2019

	Category	Not Due	0-1 year	Above 1-3 years	Above 3-5 years	Above 5years	Total Amount
Coffee Principal Loan	Principal Amount	342,525	86,797	106,026	107,313	276,690	919,352
	Rate	-	0	0	0	1	
	Provision	-	868	2,121	16,097	276,690	295,776
Sugar Principal Loan	Principal Amount	1,763,456	118,735	5,297,314	1,162,761	7,370,151	15,712,416
	Rate	-	0	0	0	1	
	Provision	-	1,187	105,946	174,414	7,370,151	7,651,698
Total Principal Loan Amount		2,105,981	205,532	5,403,340	1,270,075	7,646,841	16,631,768
Total Provision On Principal Loan Amount		-	2,055	108,067	190,511	7,646,841	7,947,474
Net Loan Amounts		2,105,981	203,476	5,295,273	1,079,564	-	8,684,294

	Category	Not Due	0-1 year	Above 1-3 years	Above 3-5 years	Above 5years	Total Amount
Coffee Interest On Loan	Interest Amount	57,852	9,594	29,712	51,129	155,631	303,918
	Rate	-	0	0	0	1	
	Provision	-	96	594	7,669	155,631	163,990
Sugar Interest on Loan	Interest Amount	127,756	7,605	920,610	150,760	2,367,585	3,574,316
	Rate	-	0	0	0	1	
	Provision	-	76	18,412	22,614	2,367,585	2,408,687
Total Interest on Loan Amount		185,607	17,199	950,322	201,889	2,523,216	3,878,234
Total Provision on Interest Loan Amount		-	172	19,006	30,283	2,523,216	2,572,678
Net Interest on Loan Amounts		185,607	17,027	931,316	171,606	-	1,305,556

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The provisioning model adopted in 2018/19 which is aligned to the prudential guideline issued by the central of Kenya and the requirements of IPSAS 41 is as follows:

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

Resultant provisions based on the model is as follows:

	Category	Performing (<0) / 1%	Watch (0-3) / 3%	Substandard (4-6) / 20%	doubtful(7-12) / 100%	Loss(>12) / 100%	Total Amount
Coffee Principal Loan	Principal Amount	138,812	64,924	5,119	13,677	696,803	919,334
	Rate	0	0	0	1	1	
	Provision	1,388	1,948	1,024	13,677	696,803	714,839
Sugar Principal Loan	Principal Amount	482,802	35,056	62,073	491,582	14,248,451	15,319,965
	Rate	0	0	0	1	1	
	Provision	4,828	1,052	12,415	491,582	14,248,451	14,758,328
Total Principal Loan Amount		621,615	99,980	67,192	505,258	14,945,254	16,239,299
Total Provision On Principal Loan Amount		6,216	2,999	13,438	505,258	14,945,254	15,473,166
Net Loan Amounts		615,399	96,981	53,754	-	-	766,133

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	Category	Performing (<0) / 1%	Watch (0-3) / 3%	Substandard (4-6) / 20%	doubtful(7-12) / 100%	Loss(>12) / 100%	Total Amount
Sugar Interest On Loan	Interest Amount	2,018	175	814	20,503	3,832,411	3,855,920
	Rate	0	0	0	0	0	-
	Provision	20	5	163	20,503	3,832,411	3,853,101
Coffee Interest On Loan	Interest Amount	5,186	13,185	383	1,037	305,896	325,687
	Rate	0	0	0	1	1	
	Provision	52	396	77	1,037	305,896	307,457
Total Interest On Loan Amount		7,204	13,360	1,197	21,539	4,138,307	4,181,607
Total Provision On Interest Loan Amount		72	401	239	21,539	4,138,307	4,160,558
Net Interest On Loan Amounts		7,132	12,959	957	-	-	21,049

Impact Analysis Schedule

Net Carrying Amount in 2017/18	2,291,589	220,504	6,226,589	1,251,169	-	9,989,851
Net Carrying Amount in 2018/19	622,531	109,940	54,711	-	-	787,182
Change in Net Carrying Amount Between The two Years	1,669,058	110,564	6,171,878	1,251,169	-	9,202,669
PROVISION CHARGE FOR THE YEAR						9,113,572

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

4. Summary of Significant Accounting Policies

a) Revenue recognition

i) Revenue from non-exchange transactions

Fees and Commission Income

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

ii) Revenue from exchange transactions

Interest income

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

c) Taxation

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

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

d) Property, plant and equipment

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

e) Financial Instruments

Financial Assets

Initial Recognition

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

Loans and receivables

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

Impairment of financial Asset

Originating loans and provision for loans impairment

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

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

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

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

Where a loan or an advance in loss category is declared irrecoverable, authority is sought from the National Treasury to write off the debts against the related provision for impairments.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Subsequent recoveries of amount previously written off are credited to the Statement of Financial Performance in the year of recovery. Loans and advances are stated net of provisions in the statement of financial position.

Financial Liabilities-Payables

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

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

f) Inventories

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

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

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

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

g) Provisions

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

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

h) Nature and purpose of reserves

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

i) Changes in accounting policies and estimates

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

j) Employee benefits Retirement benefit plans

The ComFund sponsors a defined contribution pension scheme for its employees funded partly by the ComFund 20% and staff 10% and administered by external providers. ComFund'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 ComFund also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF) a national retirement benefit scheme. This is a defined contribution scheme registered under the National Social Security Act.

The ComFund's obligation under the scheme is limited to the specific contributions legislated by government from time to time. ComFund's contribution towards the two schemes is charged in the financial statements.

k) Related Parties

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

l) Cash and cash equivalents

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

m) Comparative figures

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

n) Subsequent Events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2018.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. Significant Judgements and Sources of Estimation Uncertainty

Estimates and Assumptions

In the process of applying the ComFund's accounting policies, the ComFund's Management make certain judgments, estimates and assumptions that are continuously evaluated and assessed for adjustments based on prior experience and other determinants, including expectations of future events that are believed to be reasonable under the prevailing circumstances. Although 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 ComFund's obligations at each balance sheet date to determine whether provisions need to be made. Where it is determined provisions are required, estimation is based on existing internal policy of the ComFund.

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

Contingent liabilities

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Contingent assets

The ComFund does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the ComFund in the notes to the financial statements.

Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

6. Finance income - external investments

	2018/2019	2017/2018
	Kshs '000	Kshs '000
Interest Income From Treasury Bonds	7,134	9,180
Cash Investment and Fixed deposits- Received Income	96,565	50,985
-Accrued Income	11,376	8,613
Interest Income Loans Debtors	49,261	101,010
-Coffee Portfolio	380,864	450,348
-Sugar Portfolio		
Total finance income – external investments	<u>545,200</u>	<u>620,136</u>

The ComFund has invested the excess cash in the CBK-12 Year GOK Infrastructure Bond and in short term deposits with the approved banks to generate income pending disbursement of such funds while a rate of 5% and 10% is charged for coffee and sugar loans respectively hence generating income as reflected above.

7. Other income

	2018/2019	2017/2018
	Kshs '000	Kshs '000
Loan Processing fee	3,653	4,571
Others	<u>66</u>	-
Total other income	<u>3,719</u>	<u>4,571</u>

A loan processing fee of 1.5% and 0.5% was charged on coffee & sugar respectively while other income generated from other source income were mainly from integrated coffee productivity program and sale of non-asset item.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Security	914	906
Professional Services	4,248	6,414
Subscriptions	786	794
Total goods and services	<u>6,706</u>	<u>9,094</u>

9. Employee costs

	2018/2019	2017/2018
	Kshs '000	Kshs '000
Salaries & wages	51,082	42,123
Employee related cost-Pensions contributions & Medical Aids	17,707	14,665
Housing benefits and allowances	<u>20,507</u>	<u>17,649</u>
Total Employee Costs	<u>89,297</u>	<u>96,794</u>

10. Remunerations of Trustees

	2018/2019	2017/2018
	Kshs '000	Kshs '000
Chairman's Honorarium	526	-
Trustees Sitting, accommodation & Subsistence Allowances	19,484	13,839
Others(Trainings ,medical, Travel etc)	7,040	6,228
Total Trustee's Remuneration	<u>27,050</u>	<u>20,068</u>

11. Depreciation and amortization expense

	2018/2019	2017/2018
	Kshs '000	Kshs '000
Property, plant and equipment	18,887	15,145
Intangible Assets	<u>2,679</u>	<u>1,677</u>
Total depreciation and amortization	<u>21,566</u>	<u>18,068</u>

12. Repairs and maintenance

	2018/2019	2017/2018
	Kshs '000	Kshs '000
Buildings	298	521
Automobiles	2,102	2,246
Computer and Electronic Equipment's	2,926	4,248
Office and Communication Equipment	-	-
Furniture and Fittings	<u>186</u>	<u>91</u>
Total repairs and maintenance	<u>5,512</u>	<u>7,106</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13. General expenses

	2018/2019	2017/2018
	Kshs '000	Kshs '000
Printing and Stationery	3,316	3,189
Communication Telephone and Postage	2,215	1,264
Vehicle Running Expenses	6,886	4,337
Insurance Expenses	4,887	3,574
Stakeholder Forum Expenses	7,319	1,666
International travel	8,664	5,727
Rent and rates	11,027	9,917
Cleaning, Garbage & Sanitary	292	272
Management Fees	-	1,057
Newspapers, Periodicals, Journals and subscriptions	584	344
Advertising and Publicity	2,476	3,133
Bank Charges	868	792
Staff Welfare	2,427	2,303
Trainings, Seminar, Retreats and Workshops	11,809	12,044
Travel, Accommodation, subsistence and other Allowances	25,135	22,357
Shows , Exhibitions & trade fairs	4,778	3,639
Corporate Social Responsibility	1,851	1,655
Provision for bad debts	9,113,574	405,624
Office general expenses	4,442	3,415
ICCP Expenses	5,461	1,568
Corporate planning & Strategic Plan	4,147	-
Total general expenses	<u>9,222,157</u>	<u>487,875</u>

14. Gain on Disposal of Asset

	2018/2019	2017/2018
	Kshs '000	Kshs '000
Gain in Disposal of Motor Vehicle	<u>951</u>	<u>2,403</u>
Total Gain on Disposal of Asset	<u>951</u>	<u>2,403</u>

15. Cash and cash equivalents

	2018/2019	2017/2018
	Kshs '000	Kshs '000
(a) Bank		
Current Accounts	21,518	87,139
On call deposits	-	-
Fixed Deposits	1,343,814	854,498
Others Safaricom -Mkahawa	2,071	1,440
-Pay Bill	2,128	2,637
Total Cash and cash equivalents	<u>1,369,530</u>	<u>945,714</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Financial Institution	Account number	2018/2019 Kshs '000	2017/2018 Kshs '000
a) Current Account			
Cooperative Bank (a)	01136030994600	2,792	8,248
(b)	01136030994601	13,395	2,246
(c)	01136035349800	4,333	9,113
National Bank	01345061389300	950	67,073
Sidian Bank	01033020007800	6	11
Equity Bank	01330299214184	0	0
Family Bank	014000033336	41	8
Kenya Commercial Bank	01132784905	1	6
Sub-total		21,518	86,705
Cooperative Bank	01150035349811	0	30,000
National Bank	01400061389303	0	94,524
Sub-total		-	124,524
c) Fixed Deposits Account			
National Industrial Credit	1000124326	299,385	162,671
Cooperative Bank	01136030994600	337,171	249,112
Family Bank	014000033336	333,837	87,721
Development Bank	3201180006	373,420	230,471
Sub-total		1,343,814	729,975
d) Others			
Safaricom -Mkahawa	552601	2,071	423
-Pay Bill	552600	2,128	4,087
Sub-total		4,199	4,510
Grand Total		1,369,530	945,714

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. Receivables from exchange transactions

	2018/2019	2017/2018	
	Kshs '000	Kshs '000	
(i) Current receivables from investments			
Interest receivable from investments	<u>11,375</u>	<u>8,613</u>	
Total current receivables	<u>11,375</u>	<u>8,613</u>	
(ii) Interest on loans and Advances			
	2017/2018		
	Sugar	Coffee	Total
	Kshs 000	Kshs 000	Kshs 000
Gross Interest on loans and Advances	3,574,326	303,918	3,878,244
Restated Provisions as at 01.08.18	2,375,183	158,968	2,534,151
Provision charge for the year	33,504	5,021	38,525
Total provisions as at 30.6.18	<u>2,408,687</u>	<u>163,990</u>	<u>2,572,678</u>
Net Interest on Loans and Advances as at 30.6.18	<u>1,165,639</u>	<u>139,928</u>	<u>1,305,566</u>
	2018/2019		
	Sugar	Coffee	Total
	Kshs 000	Kshs 000	Kshs 000
Gross Interest on loans and Advances	3,855,920	325,687	4,181,607
Restated Provisions as at 01.07.18	2,408,687	163,990	2,572,677
Provision charge for the year	1,444,414	143,465	1,587,879
Total provisions as at 30.6.19	<u>3,853,101</u>	<u>307,457</u>	<u>4,160,558</u>
Net Interest on Loans and Advances as at 30.6.19	<u>2,819</u>	<u>18,230</u>	<u>21,049</u>
(iii) Current receivables Loans and Advances			
	2018/2019	2017/2018	
	Kshs '000	Kshs '000	
Loans and Advances from exchange transactions	178,950	205,483	
- Coffee Portfolio	<u>164,070</u>	<u>624,000</u>	
- Sugar Portfolio	<u>343,020</u>	<u>829,483</u>	
Total Receivables Loans and Advance	<u>343,020</u>	<u>829,483</u>	
	<u><u>375,444</u></u>	<u><u>2,143,663</u></u>	

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(iv) Non-current receivables

Loans and Advances from exchange transactions

	2017/2018		
	Sugar Kshs 000	Coffee Kshs 000	Total Kshs 000
Gross Loans and Advances	15,712,416	919,352	16,631,768
Restated Provisions as at 01.07.17	7,517,260	279,047	7,796,307
Provision charge for the year	134,438	16,729	151,167
Total provisions as at 30.6.18	7,651,698	295,776	7,947,474
Net Loans and Advances as at 30.6.18	8,060,718	623,576	8,684,294

Current Portion transferred to current receivables	624,000	205,483	829,483
Total non-current receivables	7,436,718	418,093	7,854,811

Total Receivables	8,060,718	623,576	8,684,294
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	2018/2019		
	Sugar Kshs 000	Coffee Kshs 000	Total Kshs 000
Gross Loans and Advances	15,319,965	919,334	16,239,299
Restated Provisions as at 01.07.18	7,651,698	295,776	7,947,474
Provision charge for the year	7,106,629	419,063	7,525,692
Total provisions as at 30.6.19	14,758,328	714,839	15,473,166
Net Loans and Advances as at 30.6.19	561,638	204,495	766,133

Current Portion transferred to current receivables	164,070	178,950	343,020
Total non-current receivables	397,568	25,545	423,113

Total Receivables	561,638	204,495	766,133
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. Receivables from non-exchange contracts	2018/2019	2017/2018
Current receivables	Kshs '000	Kshs '000
Funds held by Intermediaries	34,753	34,753
Prepayments	5,391	5,416
Staff debtors	64	1,768
Other Debtors -Ministry	<u>40,000</u>	<u>40,000</u>
	<u>80,208</u>	<u>81,937</u>
Less Provisions on Receivables from non-Exchange contracts	<u>34,753</u>	<u>34,753</u>
Total current receivables	<u>45,455</u>	<u>47,184</u>
18 Inventories	2018/2019	2017/2018
	Kshs '000	Kshs '000
Consumables stores	<u>1,085</u>	<u>640</u>
Total inventories at lower of cost and net realizable value	<u>1,085</u>	<u>640</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19. (i) Property, plant and equipment

	Motor Vehicles	Computer and Electronic Equipment	Office and Communication Equipment	Furniture and Fittings	Work in Progress	TOTAL
Cost	Kshs. 000	Kshs. 000	Kshs. 000	Kshs. 000	Kshs. 000	Kshs. 000
At 30 June 2017	55,820	58,965	3,447	27,113	18,674	182,694
Additions	11,993	11,984	2,860	2,275	-	29,112
Disposals	(5,004)	-	-	-	-	(5,004)
Transfers/adjustments	-	18,674	-	-	(18,674)	-
Transfers/adjustments	-	(29,199)	-	-	-	(29,199)
At 30 June 2018	62,809	60,425	6,308	29,388	-	177,603
Additions	-	9,464	401	487	-	10,352
Disposals	(6,672)	(2,491)	(112)	(38)	-	(9,314)
Transfer/adjustments	-	(7,101)	-	-	-	(7,101)
At 30 June 2019	56,136	60,297	6,596	29,836	-	171,539
Depreciation and impairment						
At 30 June 2017	(33,710)	(52,260)	(2,803)	(12,317)	-	(101,090)
Depreciation	(9,707)	(4,737)	(397)	(3,227)	-	(18,068)
Disposals	5004	0	0	0	-	5004
Impairment	-	-	-	-	-	-
Transfer/adjustment	-	2,923	-	-	-	-
At 30 June 2018	(38,413)	(54,074)	(3,200)	(15,544)	-	(114,154)
Depreciation	(11,343)	(14,699)	(492)	(3,367)	-	(29,902)
Disposals	6,672	2,491	112	38	-	9,314
Impairment	-	-	-	-	-	-
Transfer/adjustment	-	11,015	-	-	-	11,015
At 30 June 2019	(43,084)	(55,267)	(3,580)	(18,873)	-	(123,727)
Net book values						
At 30 June 2019	13,052	5,029	3,016	10,963	-	32,061
At 30 June 2018	24,396	6,351	3,108	13,844	-	47,698

19. (ii) Intangible Assets -Software

	2018/2019	2017/2018
Cost	Kshs '000	Kshs '000
At the beginning of the Year	29,199	3,365
Additions	7,101	25,834
At end of year	36,300	29,199
Additions-Internal Development	<u>0</u>	-
At end of the year	36,300	29,199
Amortization and Impairment	-	-
At the beginning of the Year	(2,923)	(1,253)
Adjustment of Overstated Amortization Expense in FY2017.18	1,247	-
Amortization	(2,679)	(1,670)
At end of the year	(4,355)	(2,923)
Impairment Loss	-	-
At end of the year	<u>(4,355)</u>	<u>(2,923)</u>
NBV	<u>31,945</u>	<u>26,276</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20. Investments	2018/2019	2017/2018		
a) Investment in Treasury bills & Bonds	Kshs '000	Kshs '000		
Financial Institution				
CBK-12 Year GOK Infrastructure Bond	35,955	76,500		
b) Investment in Staff Mortgage Scheme				
Housing Finance Corporation -Staff Mortgage Scheme	63,447	60,900		
c) Investment in Staff Car Loan Scheme				
Family Bank -Staff Car Loan Scheme	<u>10,000</u>	-		
Grand total	<u>109,402</u>	<u>137,400</u>		
21. Trade and other payables from exchange transactions	2018/2019	2017/2018		
	Kshs '000	Kshs '000		
Trade payables	4,772	3,277		
Payment received in advance	12,276	9,219		
Employee Advance				
Third party payable	9,557	8,286		
	-	-		
Total trade and other payables	<u>26,606</u>	<u>20,782</u>		
22. Capital Reserves	Sugar	Coffee		
	Revolving Fund	Revolving	Revaluation	
	Sugar	Fund Coffee	Reserve	
	Kshs '000	Kshs '000	Kshs '000	
			Total	
			Kshs '000	
Balance As At 01.07. 2018	13,554,512	1,675,206	3,421	15,233,139
Adjustments during the year	-	-	-	-
Balance As At 30 .06. 2019	<u>13,554,512</u>	<u>1,675,206</u>	<u>3,421</u>	<u>15,233,139</u>
23. Revenue Reserve				Kshs'000'
Adjustment of overstated amortization Expense in FY2017.18				1,247
Surplus for the period				(8,822,419)
Revenue Reserve reported balance as at 30 .06. 2019				<u>(12,871,708)</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24. Financial Risk Management

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

(i) Credit Risk

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

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

	Total Amount Kshs 000	Fully Performing Kshs 000	Past Due Kshs 000	Impaired Kshs 000
As at 30.06. 2019				
Receivables from exchange transactions	20,420,905	628,819	708,526	19,083,560
Receivables from non-exchange transactions	80,208	5,455	40,000	34,753
Bank balance	1,369,530	1,369,530	-	-
Total	21,870,643	2,003,804	748,526	19,118,313
As at 30. 06. 2018				
Receivables from exchange transactions	19,286,742	1,891,221	7,657,785	9,737,735
Receivables from non-exchange transactions	81,937	7,184	40,000	34,753
Bank balance	945,714	945,714	-	-
Total	20,314,392	2,844,119	7,697,785	9,772,488

(ii) Liquidity Risk Management

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the ComFund's management. It is unusual for a lending institution's maturities and interest rates of assets and liabilities to be completely matched since business transacted is

NOTES TO THE FINANCIAL STATEMENTS (Continued)

often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

Ability to replace, at an acceptable cost, interest-bearing liabilities, as they mature are important factors in assessing the liquidity of the ComFund and its exposure to interest rates. The ComFund does not maintain cash resources to meet all liabilities as they fall due as experience 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 30.06.2019				
Trade Payables & Other Payables	4,772	12,276	9,558	26,607
Current portion of borrowings	-	-	-	-
Provisions	-	-	-	-
Deferred income	-	-	-	-
Employee benefit obligations	-	-	-	-
Total	4,772	12,276	9,558	26,607
As At 30.06.2018				
Trade Payables & Other Payables	3,277	9,219	8,286	20,782
Current portion of borrowings	-	-	-	-
Commissions payable	-	-	-	-
Deferred income	-	-	-	-
Employee benefit obligations	-	-	-	-
Total	3,277	9,219	8,286	20,782

(iii) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an on-going basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The ComFund's Audit Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

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

a) Interest rate risk

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

Management of interest rate risk

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

Capital Risk Management

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

	2018-2019		2017-2018
	Kshs 000		Kshs 000
Revaluation reserve	3,421		3,421
Retained earnings	(12,881,609)		(4,050,535)
Capital reserve	15,233,139		15,229,718
Total funds	2,354,951		11,182,604
Total borrowings	0		-
Less: Cash and bank balances	(1,369,530)		(945,714)
Net debt/(excess cash and cash equivalents)	1,369,530		945,714
Gearing	100%		100%

25. Related Party Balances

(a) Nature of related party relationship

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2019	2018
	Kshs 000	Kshs 000
Transactions with related Parties		
a) Sales to related Parties		
Sales of goods	-	-
Sales of services	-	-
Total	-	-
b) Grants from the Government		
Grants from the National Govt.	-	-
Grants from County Government	-	-
Donations in kind	-	-
Total	-	-
c) Expenses incurred on behalf of related party		
Payments of salaries and wages for AFA employees	0	1,720
Payments for goods and Services	-	-
Total	0	1,720
d) Key Management Compensation		
Directors' emoluments	27,050	20,068
Compensation to the CEO	5,948	5,503
Compensation to Key Management	23,408	18,842
Total	56,406	44,413

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:

	2018/2019	2017/2018
	<u>Kshs 000</u>	<u>Kshs 000</u>
Trustees Emolument	27,050	20,068
Compensation to Managing Trustee	5,948	5,503
Key Management compensation	<u>23,408</u>	<u>18,842</u>
	<u>56,406</u>	<u>44,413</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The ComFund for the first time met the cost of all its employees including those who were previously paid by Agriculture and Food Authority. The Chairman of the Board was also appointed during the year thus causing significant raise in Trustees emoluments.

c) Due from related parties

	2018/2019	2017/2018
	<u>Kshs 000</u>	<u>Kshs 000</u>
Due from Ministry of Agriculture, Livestock, Fisheries & Irrigation	<u>40,000</u>	<u>40,000</u>
	<u>40,000</u>	<u>40,000</u>

26 Contingent Liabilities

Contingent liabilities	2018/2019	2017/2018
	<u>Kshs 000</u>	<u>Kshs 000</u>
One court case against The ComFund	<u>18,998</u>	<u>4,300</u>
Total	<u>18,998</u>	<u>4,300</u>

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

26. Material Uncertainty

The ComFund has in the last three years accumulated deficit of Kshs. 12,881,609,000 occasioned by huge provisions for non-performing loans. Cumulative Provisions charged in the financial statements stood at Kshs. Kshs.19,633,724,000. Majority of the non-performing loans are held in sugar sector and more so by government owned sugar millers and out grower institutions. The sugar loan portfolio was grossly under provisioned when it was handed over to ComFund which necessitated enhancement of provisions to adequately cover the non-performing loans. The issue of non-performing debts will be addressed by privatization of government owned sugar millers which is currently underway.

27. Capital Commitments

Capital commitments	2018/2019	2017/2018
	<u>Kshs</u>	<u>Kshs</u>
	<u>000</u>	<u>000</u>
Authorised for	-	-
Authorised and contracted for	<u>-</u>	<u>8,569</u>
Total	<u>0</u>	<u>8,569</u>

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. Events after the reporting period

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

29. Ultimate and Holding Entity

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

30. Currency

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

XIX. 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)
1. Long Outstanding Debtors:	<p>The statement of financial position and as disclosed in Note (iv) to the financial statements, reflects under non-current assets a balance, of Ksh 7,854,811,000 in the respect of loans and advances from exchange transactions as at 30 June 2018. The balance comprises amounts of Ksh. 7,436,718,000 and Ksh. 418,093,000 relating to sugar and coffee respectively.</p> <p>Although full provisions have been made on these long outstanding debts, their recovery remains doubtful due to the following reasons:</p> <ul style="list-style-type: none"> i) Some of the debtors are under receiverships and others have either ceased operations or scaled their operations down and therefore, amounts outstanding in their accounts may not be realized. ii) Most of the balances have been outstanding for more than five years and three have been no movements in the balances. iii) Some of the debtors, like Chemelil sugar Company have disputed outstanding balances attributed to them. iv) The ministry of agriculture instructed the defunct Kenya Sugar Board to 	<p>i) It is true some of the long outstanding debts are held by borrowers who are under receiverships and other have ceased operations or scaled their operations down. Some of those debts are fully provided and the ComFund is in consultations with Privatization Commission on how to actualize the write off as approved by the parliament. The Advice received from the Commission is that the write will be done at the point of privatization since the intention is clean up the balance sheet of the affected government owed companies.</p> <p>ii) None of the above listed loan balances are disputed. All disputed debtors were left with AFA during handover.</p> <p>iv) Management acknowledges the above listed loans were issued by the the defunct Sugar Board. The credit policy in place by then under purpose of funds had a</p>	Managing Trustee/ Credit Manager	Matters relating to disputed loans, legal fees and Receivership s cost were fully resolved. Debts write off falls within the privatization Commission	March 2020

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>disburse loans amounting to Kshs. 5,293, 432,334.35 to sugar companies and millers contrary to the then existing credit policy and hence their validity and collectability remains doubtful.</p> <p>v) Included in the figure of Kshs. 5,293,432,334.35 above is an amount totalling Kshs. 201,925,790.20 relating to legal and receivership cost which are in dispute by the respective sugar firms.</p> <p>vi) Further, included in the loan portfolio is a component of farmers, transporters, salaries arrears, transport fleet, infrastructure, legal and receivership fees that have been disputed by the debtors and consequently the amounts may never be realized.</p> <p>vii) Although parliament approved some outstanding amounts be written off in 2014 no efforts have been made by the ComFund to quantify the amounts to be written off and to seek advice of the National Treasury on the same.</p>	<p>provision for special circumstances as determined from time to time by the board. Therefore disbursement towards farmers' arrears, salaries and wage arrears, transport arrears, and payment to secured creditors were considered special circumstance loans. Disbursement towards transport fleet were provided for under cane development and maintenance. Disbursement towards road and infrastructure were initially given out as loan and were provided for in the policy but subsequently the policy was reviewed to make that component a grant.</p> <p>vi) While it true the reported loan portfolio include farmers, transporters salaries arrears, transport fleet, infrastructure and legal fees, all those were treated and recognized as loans with the consent of the borrower. These were loans that were properly applied and approved. Secondly, the ComFund did not take over any receivership cost from AFA. None of the listed loans is disputed.</p>			

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		<p>iv) While it true that parliament approved some amount for write off, the actualization of the same was pegged on real privatization taking place. The privation commission has drawn new time table that projects privatization will be concluded by March 2020.</p>			
<p>2.Receivables from Non-Exchange</p>	<p>The statement of financial position and as disclosed under Note 16 to the financial statements, reflects a balance of Kshs. 47,184,000 under receivables from non-exchange transactions as at 30th June 2018. Included in the balance is an amount of Kshs. 40,000,000 in respect to other debtors –ministry. Records available indicate that the parent ministry requested the management to remit the amount to support Chemelil Sugar Company and Coffee Sub sectors implementation committee.</p> <p>A review of available records at Chemelil sugar Limited revealed that the sugar company had not requested for the said loan totalling Kshs. 40,000,000. According to the company management, the purpose of disbursing the amount was not stated and as a result the company decided to use the amount to pay farmers. In addition, the same has not been captured in the company’s books due to inability to determine how</p>	<p>It is true the ComFund was requested by the parent Ministry of Agriculture, Livestock, and Fisheries to advance it Kshs 40million to bail out Coffee task force and Chemelil Sugar Company. The request was clear that the ministry would reimburse the funds to Commodities Fund once it receives its budget allocation from Treasury. The ComFund did not have lending arrangements with either Chemelil or Coffee Task Force who benefited from the Kshs 40,000,000 from Commodities Fund.</p>	<p>PS Ministry of Agriculture, Livestock and Fisheries</p>	<p>Not Resolved</p>	<p>Not Known</p>

Commodities Fund
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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	to account for it. Under the circumstances, the recoverability of the outstanding balance of Ksh.40, 000,000 appear doubtful.				
3.Trade and other payables from Exchange Transactions (creditors and Accruals)	The statement of financial position reflects a balance of Kshs. 20,782,000 under trade and other payables from exchange transactions as at 30June 2018. As disclosed in Note 20 to the financial statements, the balance includes an amount of Kshs. 9,219,000 relating to payment received in advance. Included in the amount received in advance is Kshs.4, 828,051 described as unidentified repayments as at 30 June 2018. This amount has been accruing over the years and the ComFund Management has made little effort to reconcile the balance. Under the circumstances, the validity of the payment received in advance figure of Ksh. 9,219,000 cannot be confirmed	The ComFund has continued to work with the bank to ensure depositors of funds are identified. The ComFund is also verifying funds all advance payment and overpayment from customers. Where it is clearly established the customer over paid his/her loan, the funds will be refunded to the customer.	Credit Manager and Finance Manager	Not Resolved	December, 2019


Nancy C. Cheruiyot
Managing Trustee

Date: 10th / 03 / 2020

**XX. Appendix 1: PROJECTS IMPLEMENTED BY THE COMFUND
Projects**

Projects implemented and funded by the ComFund

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

Status of Projects completion

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

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

XXI. Appendix 11: INTER-ENTITY TRANSFERS

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