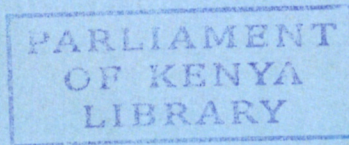


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

*paper laid by
Leader of Majority
on 13/09/2017
W. W. K.*



REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
COMMODITIES FUND**

**FOR THE YEAR ENDED
30 JUNE 2016**



COMMODITIES FUND

OFFICE OF THE AUDITOR GENERAL

P. O. Box 30084 - 00100, NAIROBI

- 5 MAY 2017

RECEIVED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30TH JUNE 2016

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

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

During the period under review, the affairs of the Fund were run by the Management with the direction of the Ministry of Agriculture, Livestock and Fisheries. The Crops Act 2013, Section 9(3) states that the Fund shall be run by Board of Trustees, appointed by the Authority with the approval of the National Assembly. The Managing Trustee is the Secretary to the Board and Chief Executive Officer of the Fund. The Board is assisted by a management team headed by the Managing Trustee with departmental managers comprising of, the Credit Manager, the Finance Manager, Legal Manager and the Information and Communications Technology Manager. Other departmental heads are the Internal Auditor, Human Resource Officer and the Supply Chain Officer.

Principal Activities

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

(b) Key Management

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

- Interim Managing Trustee - Nancy Chelangat
- Ag. Credit Manager - Richard Omelu
- Interim Finance Manager - Silas Nyaga
- Legal Manager - Nesline Okiko
- ICT Manager - Solomon Kirwa
- HR and Admin Officer - Benard Atonga
- Ag. Internal Auditor - Edwin Okiah
- Interim Supply Chain Officer - Tomno Kibichii

(c) Fiduciary Management

During the period, the Fund did not have a substantive Board of Trustees as required by the law. The Management however ran the affairs of the Fund for the period with the direction of the Ministry of Agriculture, Livestock and Fisheries.

(d) Fund Headquarters

2nd floor, Railway Headquarters Building - Block D
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Off Haile Selassie Avenue
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City Square
Nairobi

(e) Fund Contacts

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

(f) Fund Bankers

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





(g) Independent Auditors


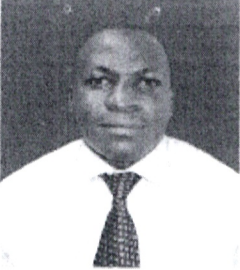


Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P. O. Box 30084
GPO 00100
Nairobi, Kenya

(h) Principal Legal Adviser

Nesline Gechuki Okiko
Legal Manager
Commodities Fund
P.O. Box 52714
City Square 00200
Nairobi, Kenya

II. MANAGEMENT TEAM

<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. • Philosophy Of Business Administration (on-going)
<p>2. Mr. Richard Omelu</p> 	<ul style="list-style-type: none"> • Area of Responsibility: Credit • Academic Qualification: Bachelor of Commerce in Finance, MBA Strategic Management (on-going) • Professional Qualification: Certificate in Corporate Governance, Credit Risk Certification Program
<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 • Academic Qualification: MBA-Finance • Bachelor of Commerce in Accounting. • Professional Qualification: CPA (K), CPS

<p>5.Mr. Bernard Atonga</p> 	<ul style="list-style-type: none"> • Area of Responsibility: Human Resources & Administration. • Academic Qualification: M.Sc. in HRM, Bachelor of Commerce in HRM • Professional Qualifications: Higher Diploma in HRM, Certificate in Workplace Counselling, Certificate in Corporate Governance
<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(on-going) • 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

III. REPORT OF THE MANAGING TRUSTEE

1.0: Introduction:

I am pleased to announce the financial results of the Commodities Fund for the year ending 30th June 2016. The period marks the Fund's second year after operationalization of Crops Act, 2013 that merged Coffee Development Fund with Sugar Development Fund to form Commodities Fund. The Fund is a Financial Institution that provides financial solutions along the crops value chain.

2.0: Financial Performance

The Fund recorded a surplus of Kshs. 41.5 million for the year ended June 30, 2016 compared to restated deficit of Kshs. 2.67 billion recorded in June 2015.

During the year under review, the Fund performance was weighed down by a significant increase in provisions as a result of adopting a synchronized credit policy that provides for common provision rates for all the loans. The Sugar Development Fund loan portfolio adopted from former Kenya Sugar Board was previously under provisioned. A large portion of the portfolio is non-performing hence the need for adequate provisions. As a result, the Fund provisions were enhanced by Kshs. 2.99 billion that affected prior periods and a further Kshs. 272 million affecting the period under review.

Resulting from the synchronized credit policy and improved provisioning policy, provisions on coffee portfolio was enhanced by Kshs. 86 million affecting prior periods and a further Kshs. 231 million for the year under review.

The enhanced provisions reduced revenue reserve from Kshs. 681million to a negative of Kshs. 2.3 billion. In the year under review income from credit activities grew to Kshs. 545 million from Kshs. 465 million representing 16% growth. Revenues from non-credit activities mainly investments grew by 88% from Kshs. 99 million to Kshs. 187 million.

The operating cost of the Fund excluding provisions for non-performing debts grew by 3% to Kshs. 190 million from Kshs. 184 million. The Fund's loan book as at 30 June, 2016 stood at Kshs. 9.1 billion down from a reinstated balance of Kshs. 9.6 billion in June 2015.

3.0: Credit portfolio

The Fund's loan portfolio comprised of coffee and sugar loan products that supported production, processing and value addition of the two crops. The Fund disbursed a total of Ksh. 503 million directly and through good performing appointed intermediaries towards development of the two crops. The extension of credit facilities was realized as a result of strong relationship between the Fund and its partners. The performance was achieved in spite of delays in disbursements occasioned by lack of a Board of Trustees to approve credit requests in time.

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

In an effort to increase demand for the Fund's credit facilities and similarly boost borrowers capacity to repay advanced credit facilities, the Fund intensified its Integrated Coffee Productivity Project (ICPP) in counties where the project had earlier been rolled out in conjunction with other partners (Nandi, Elgeyo Marakwet, Uasin Gishu and Trans-Nzoia Counties). The project entails increasing access to coffee planting materials; boost coffee productivity through trainings on best agricultural practices and enhancing capacity and governance of societies. This will ultimately lead to increased coffee earnings, enhanced loan uptake, proper implementation of financed projects and improved loan repayments.

4.0: Human Capital

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

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

5.0: Risk Management and Internal Controls

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

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

ISO 9001:2008 Re-Certification

The Fund has a functioning and continuously monitored Quality Management System that is in the process of ISO 9001: 2008 re-certification. The process is expected to be concluded by end of 30th June 2017.

6.0: Corporate Social Responsibility

The Fund recognizes that the institution's social, environmental and ethical conduct has an impact on our reputation. We therefore take our corporate social responsibilities seriously and are committed to advancing our policies and systems to ensure we address and monitor all aspects of Corporate Social Responsibility that are relevant to us. These include good ethical behaviour, concern for employees' health and safety and community involvement.

7.0 Outlook

Empowering farmers through provision of sustainable, affordable and accessible credit and advances is going to be our focal point in days to come. Our expanded mandate requires us to finance all crops regulated by Agriculture and Food Authority. We will collaborate with all stakeholders with a view to harnessing opportunities and growing robust agriculture enterprises within the sectors we are mandated to serve.

Our achievements in 2015/16 would not have been possible without the dedication and expertise of our staff, to whom I extend my sincere thanks. In addition I would also like to extend my appreciation to the Ministry of Agriculture, Livestock and Fisheries who have provided wise counsel and guidance to the Fund during the year.



Nancy Chelangat Cheruiyot
Interim Managing Trustee

IV. CORPORATE GOVERNANCE STATEMENT

PROLOGUE

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

Board of Trustees

The Fund is ideally overseen through the direction of the Board of Trustees, which is responsible for:

1. Providing policy guidelines and strategic decision-making;
2. Establishing and maintaining the Fund’s overall systems of planning, accounting and internal control as well as ensuring its integrity;
3. Setting the strategic direction of the Fund;
4. Setting policy guidelines for management and ensuring competent management of the business including the selection, supervision and remuneration of senior management;
5. Ensuring that the business of the Fund is conducted in compliance with relevant laws, regulations and the legality of transactions;
6. Reporting the performance of the Fund to stakeholders and ensuring the Fund meets all its other responsibilities to stakeholders;
7. Ensuring that the rights of stakeholders that are protected by law are respected;
8. Permitting and facilitating performance-enhancing mechanisms for stakeholder participation;
9. Ensuring that where stakeholders participate in performance-enhancing mechanisms, they have access to all relevant information;
10. Putting in place independent and viable mechanisms to evaluate performance of the Fund and management;
11. Account for stewardship [efficient and effective use of entrusted resources] for the maximum benefit of the Fund;
12. Ensuring that the Fund operates within ethical guidelines that enhance integrity, social accountability and the reputation and credibility of the Fund;
13. Maintaining adequate systems of financial management and internal control over the Fund;
14. Facilitating an extension of Auditors duties in regard to:
 - Reporting on whether the Fund has financial and other risk management controls,
 - Evaluating and reporting on aspects of propriety and efficiency;
15. Extending the liability of external auditors to third parties.

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

Board Structure and Processes

The envisaged Board of Trustees will comprise members who contribute expertise based on their professional qualifications and business experience. It reflects a diversity of backgrounds and experience.

Board meetings will be held quarterly and the Fund ensures that it provides the necessary resources and expertise to the Board of Trustees to assist them in their mandate. The Board will be inducted on Fund's activities through trainings and seminars on corporate, legal and governance issues to enhance their knowledge and skills in corporate governance issues.

The Board of Trustees and its constituent committees will have Board Charters which govern their operations in conformity with best corporate governance practices. The Board will conduct an annual evaluation of its performance and that of its key committees. The evaluation will be carried out with the evaluation criteria linked to Board and Committee responsibilities and goals as set forth in the charter and governance policies.

Conduct of Business Operations, Performance

The Funds business operations are carried out within an established framework of processes, procedures, systems and in line with the Fund's Strategic Plan. The Fund is in its second strategic cycle 2012-2016 after completing the 2008-2012 cycle. The Management structure has clearly set out roles, responsibilities and reporting lines, all geared towards providing strong, stable leadership and achievement of business objectives. As a key Management initiative, the Fund is using the balanced scorecard with all staff performance evaluated continuously on a semi-annual basis with financial and non-financial metrics used to evaluate executive performance.

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

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

Corporate Social Responsibility

The Fund has put in place a corporate social responsibility strategy to better address its corporate social sustainability initiatives. Consequently, it has adopted a structured approach to social sustainability issues as part of its corporate plan. The Fund's initiatives for the focal period are outlined in the corporate social responsibility statement.

Environmental Issues

The Fund carefully considers and exercises diligence in its consideration of environmental issues and analyses the strategic impact as well as the economic questions they raise. Thus, the Fund, in its lending operations incorporates due diligence to ensure credit advanced is applied towards crop husbandry based on green farming practices in line with its business planning and encourages dialogue on the same between itself and stakeholders.

Compliance

The Management is satisfied that the Fund has, to the best of its' knowledge, complied with all relevant laws and conducted its business affairs in accordance with the law in particular to the State Corporations Act and the Crops Act. Further disclosures on compliance are set out in the Management statement of responsibilities and notes to the financial statements.



Nancy Chelangat Cheruiyot
Interim Managing Trustee

V. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Commodities Fund recognizes that the institution's social, environmental and ethical conduct has an impact on our reputation. We therefore take our corporate social responsibilities seriously and are committed to advancing our policies and systems to ensure we address and monitor all aspects of Corporate Social Responsibility that are relevant to us. These include good ethical behavior, concern for employees' health and safety and community involvement.

We strive to maintain a productive and open dialogue with all parties who may have an interest in our activities. We conduct regular customer satisfaction surveys, monitor supplier performance and actively encourage feedback from our employees using a variety of methods including employee surveys.

During the financial year under review, the Fund actively played its role as a corporate citizen by sponsoring its staff members to participate in Nairobi 2015 Stan Chart Marathon, an event that is meant to raise funds to support visually challenged children.

Also, the Fund sponsored members of staff for Mater Heart run, an event aimed at raising awareness of heart diseases and especially supporting children with heart complications to get required medical attention.

In addition, Commodities Fund is committed to supporting the welfare of the vulnerable members of community to assuage short run sufferings as well as natural emergencies. During the financial year, the Fund received such emergency request from Soweto (AACB) Children's home in Umoja, Nairobi. This is a community based project that was established to take care of the vulnerable children and the orphans. These were (are) HIV & AIDS infected and affected children whose parents cannot afford their basic needs. The community home caters for forty five Children ranging from one year to 17 years. To this end, the Fund donated food stuff and other basic goods.

On promoting sustainable environment, the Fund partnered with KEFRI to donate 3000 Grivellea tree seedlings to MOI-BEN Women Sacco, with membership from entire Uasin Gishu, Nandi and Elgeyo Marakwet Counties. This is in an effort to improve forest cover in agricultural regions in North Rift region.

The Fund shall continue to undertake these noble initiatives (and many more, within the capability of the Fund) in the subsequent financial years.

VI. REPORT FROM THE MANAGEMENT TEAM OF THE COMMODITIES FUND.

The Fund did not have a Board of Trustees in place during the financial year. However, when put in place, one of its major roles will be to submit their report together with the audited financial statements for the Twelve (12) Months period which show the state of the *Fund's* affairs. In the absence of the Board, the Management submits this financial year's annual report and financial statements for the Twelve months ending 30th June 2016.

Principal activities

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

Results

The results of the Fund for the year ended June 30, 2016 are set out on page 1.


The Management

The members of the Management team that served during the financial year are shown on page (iv) and (v) above in accordance with Crops Act, 2013. The affairs of the Fund in the period under review were conducted by the Management under the supervision of the Ministry of Agriculture Livestock and fisheries.

Auditors

The Auditor General is responsible for the statutory audit of the Fund in accordance with the Public Finance Management (PFM) Act, 2012.

By order of the Management Team.



Nesline Gechuki Okiko
Legal Manager

Date: 4/05/2017.....

VII. STATEMENT OF MANAGEMENT RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of the *Fund's* financial statements, which give a true and fair view of the state of affairs of the *Fund* for and as at the end of the financial year (period) ended on June 30, 2016. 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 *Fund*; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the *Fund*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the *Fund's* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the *Fund's* financial statements give a true and fair view of the state of *Fund's* transactions during the financial year ended June 30, 2016, and of the *Fund's* financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the *Fund*, which have been relied upon in the preparation of the *Fund's* financial statements as well as the adequacy of the systems of internal financial control.

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



**Interim Managing Trustee
On Behalf Management**

REPUBLIC OF KENYA

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NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON COMMODITIES FUND FOR THE YEAR ENDED 30 JUNE 2016

REPORT OF THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Commodities Fund set out on pages 1 to 27, which comprise the statement of financial position as at 30 June 2016, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015.

Management's Responsibility for the Financial Statements

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

The 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.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report 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. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to

Report of the Auditor-General on the Financial Statements of Commodities Fund for the year ended 30 June 2016

design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, I am not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

1. Loans and Advances from Exchange Transactions

The statement of financial position as at 30 June 2016 reflects loans and advances totalling Kshs.8,418,075,000, as disclosed under Note 17(ii) to the financial statements. This balance, however, includes non-performing loans totalling Kshs.5,565,961,068 advanced to various companies. As previously reported, some of these companies are under receivership with an accrued interest of Kshs.1,227,735,409. Although full provisions on these long outstanding debts whose recovery remains doubtful has been made, no evidence has been provided for verification showing the actions being taken to ensure recovery of the outstanding loans and accrued interest.

Further, the loan balance of Kshs.8,418,075,000 also includes an amount of Kshs.1,915,615,011 advanced to five sugar companies in 2014/15 including one under receivership. Although it has been explained that the loans were processed and disbursed by the Agriculture and Food Authority (AFA) Sugar Directorate, evidence of the board's Minutes approving the loans has not been presented for audit verification. The loan balance of Kshs.8,418,075,000 further includes Kshs.260,888,075 in respect of an outstanding loan due from West Kenya Sugar Company, which in turn includes Kshs.2,464,420 relating to legal fees in dispute. From the foregoing, loans and advances from exchange transactions balance of Kshs.8,418,075,000 as at 30 June 2016 could not be confirmed as fairly stated.

2. Current Receivables from Exchange Transactions.

The current receivables from exchange transactions balance of Kshs.24,208,000 reflected in the statement of financial position as at 30 June 2016, excludes as in the previous year, an amount of Kshs.146,717,000 due from the defunct Sugar Development Fund in relation to expenses incurred by the Fund on behalf of various institutions some of which are under receivership, prepayments and deposits of Kshs.100,000 and imprests of Kshs.1,349,000 from former employees. The balance of Kshs.24,208,000 is therefore understated by the excluded amounts.

3. Receivables from Non-Exchange Transactions

The receivables from non-exchange transactions balance of Kshs.42,057,000 reflected in the statement of financial position as at 30 June 2016, and as

previously reported excludes Kshs.1,837,694,000 due from the defunct Sugar Development Fund.

Under the circumstance, the accuracy and completeness of the receivables from non-exchange transactions figure of Kshs.42,057,000 as at 30 June 2016 cannot be confirmed.

4. Investments

As reported in the previous year, an amount of Kshs.52,237,000 in respect of investments by the defunct Sugar Development Fund placed in Euro Bank which was put under receivership in the 1990's, has not been reflected and disclosed in the financial statements for the year ended 30 June 2016. In addition, opening investment balance of Kshs.4,203,000,000 as at 1 July 2014 by the two institutions, namely Sugar Development Fund and Coffee Development Fund, that formed Commodities Fund have, similarly, not been reflected or disclosed in the financial statements. No satisfactory explanation has been provided for these omissions.

5. Trade and Other Payables for Exchange Transactions

The statement of financial position as at 30 June 2016 and as disclosed under Note 18 to the financial statements reflects trade and other payables from exchange transactions totalling Kshs.32,789,000 which like in the previous year, exclude amounts of Kshs.5,000,000 and Kshs.3,062,000 due to Boco-Tractor lease deposit and Fintech Kenya, respectively. This has resulted in understatement of payables by the two amounts. Further, the trade and other payables figure of Kshs.32,789,000 includes Kshs.1,983,000 described as unidentified deposits.

Further, trade and other payables figure of Kshs.32,789,000 includes, as disclosed under Note 22 to the financial statements, an amount of Kshs.18,000,000, being cash receipts from two sugar companies for repayments of loans said to have been advanced by the Agriculture and Food Authority (AFA) during the year. However, no records were available with the Commodities Fund to enable crediting of the amount. In addition, the Crops Act, 2013 does not give the Agriculture and Food Authority the power to advance loans.

6. Cash and Cash Equivalents

The statement of financial positions' cash and cash equivalents balance of Kshs.1,517,593,000 as at 30 June 2016 and as disclosed under Note 12 (a) to the financial statements, includes Kshs.21,167,000 and Kshs.35,000 held in Sidian Bank and Equity Bank respectively. The management has, however, not provided evidence of authority from Treasury for investing funds in these banks. Similarly, the short-term deposits, as disclosed under Note 12 (c) to the financial statements, include Kshs.505,798,000, Kshs.463,306,000 and Kshs.223,027,000 held at Family Bank, Development Bank and Equity Bank respectively. The management has however not provided documentary evidence showing that the Board of Trustees and the management undertook due diligence on the banks before the funds were placed in these institutions.

Disclaimer of Opinion

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



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

Nairobi

05 July 2017

IX. STATEMENT OF FINANCIAL PERFORMANCE
For the period ending 30 June 2016

	NOTES	2015/16	2014/15
		<u>Kshs '000</u>	<u>Kshs '000</u>
			<u>Restated</u>
Revenue			
Revenue from exchange transactions			
Interest from loans and advances	3	547,407	462,653
Finance income - External investments	4	154,374	73,765
Finance income - outstanding receivables	5	24,208	17,529
Other income	6	<u>8,844</u>	<u>8,043</u>
Total revenue		<u>734,833</u>	<u>561,990</u>
Expenses			
Employee cost	7	59,548	47,705
Board Expenses	8	-	-
Depreciation and amortization expense	9	13,982	10,018
Repairs and maintenance	10	4,295	4,994
Operating / Administrative Expenses	11	<u>615,410</u>	<u>3,171,397</u>
Total expenses		<u>693,235</u>	<u>3,234,113</u>
Surplus/(Deficit) for the period		<u>41,598</u>	<u>(2,672,122)</u>

The notes set out on pages 11 to 26 form an integral part of the Financial Statements.


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X. STATEMENT OF FINANCIAL POSITION
As at 30th June 2016

	Notes	2015/2016	2014/2015
		<u>Kshs '000</u>	<u>Kshs '000</u>
Assets			<u>Restated</u>
Current assets			
Cash and cash equivalents	12	1,517,593	1,112,589
Current receivables from exchange transactions	13(i)	24,208	17,529
Interest on loans and advances	13(ii)	1,245,911	1,036,522
Receivables from non-exchange transactions	14	42,057	39,964
Current Receivables loans and advances from exchange transactions	17(i)	<u>744,868</u>	<u>757,088</u>
Total Current Assets		<u>3,574,637</u>	<u>2,963,692</u>
Non-current assets			
Investments in government securities	15	76,500	150,000
Property, plant and equipment	16	50,375	39,739
Loans and Advances from exchange transactions	17(ii)	<u>8,418,075</u>	<u>8,912,001</u>
Total non-current assets		<u>8,544,950</u>	<u>9,101,740</u>
Total assets		<u>12,119,587</u>	<u>12,065,432</u>
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions(Creditors and accruals)	18	32,789	20,232
Commissions payable from exchange transactions	19	<u>76,728</u>	<u>76,728</u>
Total liabilities		<u>109,517</u>	<u>96,960</u>
Net assets		<u>12,010,070</u>	<u>11,968,472</u>
Reserves	20	14,340,701	14,340,701
Accumulated surplus		(2,330,631)	(2,372,229)
Total net assets and liabilities		<u>12,010,070</u>	<u>11,968,472</u>

The Financial Statements set out on pages 1 to 10 were signed on behalf of the Management Team by


Interim Managing Trustee
Date... 04/05/2017


Interim Finance Manager
Date... 04/05/2017

XI. STATEMENT OF CHANGES IN NET ASSETS

	Notes	Revolving fund Sugar	Revolving Fund Coffee Kshs '000	Grants reserve Kshs '000	Revaluation Reserve Kshs '000	Revenue Reserve Kshs '000	Total Kshs '000
Balance As At 30.06. 2015		13,138,573	1,675,206	-	3,421	299,893	15,117,093
Restatement items			-	-	-	-	-
Reversal of Debts owed by AFA	22(ii)	(347,111)					(347,111)
Reversal of loan repayment held by AFA	22(ii)	(140,001)					(140,001)
Adjustment of overstated Loans Balances		(14,016)					(14,016)
Adjustment of understated Interest on Loans		24,629					24,629
Restated deficit for 2014/2015		-	-	-	-	(2,672,122)	(2,672,122)
Restated Balances As At 30.06.2015		12,662,074	1,675,206	-	3,421	(2,372,229)	11,968,472
Restated Balance As At 01.07.2015		12,662,074	1,675,206		3,421	(2,372,229)	11,968,472
Surplus for the year		-	-	-	-	41,598	41,598
		-	-	-	-	-	-
Balance As At 30 JUNE 2016		12,662,074	1,675,206	-	3,421	(2,330,631)	11,662,959

XII. STATEMENT OF CASH FLOWS

	2015/2016	2014/2015
	<u>Shs 000</u>	<u>Shs 000</u>
		<u>Restated</u>
Cash generated from operations		
Surplus/(Deficit) for the year before tax	41,598	(2,672,122)
Adjusted for:		
Depreciation	13,982	10,018
Non-cash adjustment to equity	(538,534)	5,257,768
Contributed assets		
Impairment		
Gains and losses on disposal of assets		
Contribution to provisions	538,533	57,551
Contribution to impairment allowance		
Finance income	(178,583)	(91,294)
Finance cost		
Working capital adjustments:		
Increase in loans and Advances	506,146	(1,797,224)
Decrease in receivables	(218,161)	(827,126)
Decrease in deferred income		
Decrease in payables	12,557	12,833
Increase in payments received in advance	-	-
Net cash flows from operating activities	<u>177,538</u>	<u>(49,595)</u>
Cash flows from investing activities		
Purchase of property, plant, equipment and intangible assets	(24,617)	(14,257)
Proceeds from disposal of investment	73,500	
Investment in fixed deposit	178,583	91,294
Net cash flows used in investing activities	<u>227,466</u>	<u>77,037</u>
Cash flows from financing activities		
Proceeds from borrowings		
Repayment of borrowings		
Capital grants from government	-	-
Net cash flows used in financing activities	-	-
Net increase/(decrease) in cash and cash equivalents	405,004	27,442
Cash and cash equivalents as at 1 July 2015	<u>1,112,589</u>	<u>1,085,147</u>
Cash and cash equivalents at 30 June 2016	<u>1,517,593</u>	<u>1,112,589</u>

XIII. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

		Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
S/N	ITEM DESCRIPTION	2015-2016	2015-2016	2015-2016	2015-2016	2015-2016
1.0	EXPECTED REVENUE	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000
1.1	Internally Generated Funds	331,807	-	331,807	725,989	394,182
1.2	Government Grants-Recurrent	-	-	-	-	-
1.3	Grants - AFFA	596,468	-	596,468	-	(596,468)
1.4	Other Income from Recurrent	2,900	-	2,900	8,844	5,944
1.5	Reserves	-	-	-	-	-
	Total Revenue	931,175	-	931,175	734,833	(196,342)
	Less: AFFA Corporate Disbursement	-	-	-	-	-
	Total Revenue after Disbursements	931,175	-	931,175	734,833	(196,342)
2.0	PERSONNEL COSTS					
2.1	Basic Pay	71,875	-	71,875	32,544	39,331
2.2	House Allowance	19,920	-	19,920	8,760	11,160
2.3	Commuter Allowance	9,616	-	9,616	2,280	7,336
2.4	Airtime Allowance	3,888	-	3,888	1,146	2,742
2.5	Entertainment Allowance	2,040	-	2,040	720	1,320
2.6	Extraneous Allowance	1,860	-	1,860	84	1,776
2.7	Leave Allowance	1,841	-	1,841	848	993
2.8	Pension/Gratuity	14,429	-	14,429	5,233	9,196
2.9	NSSF	168	-	168	83	85
3.0	Medical expenses	10,440	-	10,440	6,823	3,617
	Acting Allowance	1,056		1,056	999	57
	Transfer Allowance	1,500		1,500	28	1,472
	Responsibility Allowance	2,200		2,200	-	2,200
	Special Duty allowance	2,500		2,500		2,500
	Sub Total	143,333	-	143,333	59,548	83,785
3.0	BOARD EXPENSES					
3.1	Sitting Allowance	3,950	-	3,950		3,950

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					-	
3.2	Accommodation and Subsistence	2,411	-	2,411	-	2,411
3.3	Sub -Committee Sitting Allowance	-	-	-	-	-
3.4	Corporate Governance Trainings	2,935	-	2,935	-	2,935
3.5	Chairman's Honarium	960	-	960	-	960
3.6	Farmers travel committees	-	-	-	-	-
3.7	Millage	1,059	-	1,059	-	1,059
3.9	Induction	-	-	-	-	-
4.0	Lunch allowance	582	-	582	-	582
4.1	Board Medical Insurance	360	-	360	-	360
4.2	All Directors- Travel	3,308	-	3,308	-	3,308
4.3	Telephone and Postage	-	-	-	-	-
4.4	Board Elections	-	-	-	-	-
	Sub Total	15,565	-	15,565	-	15,565
4.0	OPERATING EXPENSES/ADMISTRATIVE EXPENSE					
4.1	Regulation & Compliance					
	a) Registration & licensing	-	-	-	-	-
	b) Inspections & Surveillance	-	-	-	-	-
	c) Development and Review of Standards	-	-	-	-	-
	d) Quality analysis	-	-	-	-	-
	e) Stakeholders Forums	-	-	-	-	-
	f) International Forum/Meetings	-	-	-	-	-
	g) Consultancies	-	-	-	-	-
	h) Industry data collection and forecasting/ e portal	-	-	-	-	-
	Sub Total	-	-	-	-	-
4.2	Technical and Advisory					
	a) Stakeholders Forums	-	-	-	-	-
	b) Field Days	-	-	-	-	-
	c) Collaborations and cordinations	-	-	-	-	-
	d) Stakeholders capacity building	-	-	-	-	-

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	e) Environmental sustainability	-	-	-	-	-
	f) International Forum/Meetings	-	-	-	-	-
	g) Seeds Management/Census	-	-	-	-	-
	h) Consultancies	-	-	-	-	-
	Sub Total	-	-	-	-	-
4.3	Market Research & Development					
	a) Generic Promotion & Market Dev't	-	-	-	-	-
	b) Market Research	-	-	-	-	-
	c) Subscriptions to Associations	-	-	-	-	-
	d) Product Promotion	-	-	-	-	-
	e) Overseas conference Expenses	-	-	-	-	-
	f) Value Addition	-	-	-	-	-
	g) Market registration	-	-	-	-	-
	Sub Total	-	-	-	-	-
	Credit & Field Activities					
	a) Loan Monitoring & Evaluation	13,873	-	13,873	11,495	2,378
	b) Stakeholders Forum Expenses	-	-	-	-	-
	c) Debt Collection Expenses	4,220	-	4,220	-	4,220
	d) Product Promotion	-	-	-	-	-
	e) Loans Provision	15,052	-	15,052	503,781	(488,729)
	f) Credit Assurance	9,156	-	9,156	-	9,156
	g) ICPP Activities	6,440	-	6,440	4,421	2,019
	Sub Total	48,741	-	48,741	519,697	(470,956)
4.4	Corporate Communication					
	a) Publicity Materials, Branding & Advertising	10,950	-	10,950	409	10,541
	b) Public relations and corporate branding	-	-	-	-	-
	c) Shows , Exhibitions & trade fairs	7,194	-	7,194	2,519	4,675
	d) Corporate Social Responsibility	2,000	-	2,000	653	1,347
	e) Subscriptions to Associations	1,140	-	1,140	427	713

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	Sub Total	21,284	-	21,284	4,008	17,276
4.5	Research, Strategy and Planning	-	-	-	-	-
4.6	Disbursements					
	oo Statutory- 40% of Advalorem Levy	-	-	-	-	-
	Refunds	-	-	-	-	-
	Sub Total	-	-	-	-	-
4.7	Human Resource Costs					
	a) Staff Welfare	2,550	-	2,550	842	1,708
	c) Trainings, Seminar, Retreats and Workshops	16,137	-	16,137	14,243	1,894
	d) Consultancies	5,000	-	5,000	1,489	3,511
	e) Subscriptions to Professional Bodies	950	-	950	75	875
	f) Staff Uniforms	490	-	490	-	490
	g) Internships and attachment	-	-	-	-	-
	Sub Total	25,127	-	25,127	16,650	8,477
4.7	Audit Expense					
	a) Audit Fees	1,200	-	1,200	696	504
	b) Systems Audit	-	-	-	-	-
	c) Internal Audit	-	-	-	-	-
	d) Risk and Risk Management	-	-	-	-	-
	e) ISO Audits	-	-	-	-	-
	Sub Total	1,200	-	1,200	696	504
4.8	Legal Costs					
	a) Legal Services	2,000	-	2,000	1	1,999
	b) Travel & Subsistence	-	-	-	-	-
	c) Workshops	-	-	-	-	-
	Sub Total	2,000	-	2,000	1	1,999
4.9	Finance & Administration					
	a) Office Expenses					
	i. common user items-Printing and Stationery	5,714	-	5,714	4,196	1,518
	ii. Communication Telephone and Postage	3,105	-	3,105	412	2,693

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	iii. Em						
ail And Internet		1,200	-	1,200	806	394	
b) General Expenses		-	-	-		-	
c) Vehicle Running Expenses		-	-	-	-	-	
el	i. Fu	3,060	-	3,060	3,233	(173)	
hers	ii. Ot	1,950	-	1,950	-	1,950	
d) Insurance Expenses		3,650	-	3,650	2,124	1,526	
e) Local Travelling Expenses		12,147	-	12,147	10,783	1,364	
f) International travel		10,099	-	10,099	5,862	4,237	
h) Security		2,028	-	2,028	472	1,556	
i) Utilities- Electricity and water		1,200	-	1,200	853	347	
j) Rent and rates		9,586	-	9,586	7,945	1,641	
k) Retreats		-	-	-	-	-	
l) Computer Accessories		-	-	-	-	-	
m) Record management		-	-	-	-	-	
n) Cleaning, Garbage & Sanitary		480	-	480	238	242	
o) Management Fees		1,206	-	1,206	1,075	131	
p) Newspapers, Periodicals, Journals and subscriptions		350	-	350	297	53	
q) Airticket		-	-	-	-	-	
r) Advertising and Publicity		-	-	-	-	-	
s) Bank Charges		600	-	600	499	101	
t) Hire of taxi		-	-	-	-	-	
u) Director General Office		-	-	-	-	-	
V) Supply chain Department		-	-	-	-	-	
w) ICT		-	-	-	-	-	
x) Provisions for bad and doubtful debts		-	-	-	34,752	(34,752)	
y) Intermediary commissions		-	-	-	-	-	
Sub Total		56,376	-	56,376	73,547	(17,172)	
					38,795		
4.10	FOOD CROPS	-	-	-	-	-	
5.0	REPAIRS AND MAINTAINANCE						
a)	Automobiles	3,050	-	3,050		1,211	

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					1,839	
	b) Buildings	800	-	800	24	776
	c) Computers & Equipments	3,850	-	3,850	3,241	609
	d) Others-Furniture and Fittings	-	-	-	-	-
	Sub Total	7,700	-	7,700	5,104	2,596
6.0	FINANCE COSTS	-	-	-	-	-
	Sub Total	-	-	-	-	-
	TOTAL EXPENDITURE	321,326	-	321,326	679,254	(357,927)
	OPERATING SURPLUS/(DEFICIT)	13,381	-	13,381	55,579	42,198
7.0	DEPRECIATION AND AMORTIZAION	12,908	-	12,908	13,982	(1,074)
				-		
	SURPLUS/(DEFICIT)	473	-	473	41,598	41,125
				-		
8.0	CAPITAL EXPENDITURE			-		
	a) Buildings	-	-	-	-	-
	b) Plant and Equipment	475	-	475	-	475
	c) Laboratory	-	-	-	-	-
	d) Automobiles	19,500	-	19,500	18,501	999
	e) Computer and Electronic Equipments	8,258	-	8,258	6,024	2,234
	f) Office and Communication Equipment	-	-	-	-	-
	g) Furniture and Fittings	10,320	-	10,320	70	10,250
	h) ICPP	-	-	-	-	-
	i) Revaluation of Assets	-	-	-	-	-
	J) Strategic Plan	-	-	-	-	-
	k)Risk Management Consultancy	-	-	-	-	-
	Total Capital Budget	38,553	-	38,553	24,595	13,958
	OVERALL SURPLUS/(DEFICIT)	(38,080)	-	(38,080)	17,003	55,083

Major performance differences are explained in Note 22 (a) to (i).

XIV. NOTES TO THE FINANCIAL STATEMENTS

1. Statement of compliance and basis of preparation

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

This is the second year of adoption of with International Public Sector Accounting Standards (IPSAS) accounting Standards by the Fund. The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the indirect method. The financial statements are prepared on accrual basis. The Fund has also adopted the Public Financial Management Act.

2. Summary of Significant Accounting Policies

a) Revenue recognition

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.

i) 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.

ii) Fees and Commission Income

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

iii) Interest Computation

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

iv) Sugar Levy Income

Effective July 2015 share of levy from AFA is recognized when communicated in writing from AFA.

b) Budget information

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

c) 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 $\frac{1}{3}$ %
Furniture and Fittings	-	12.5%

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

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

d) Provisions

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

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

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

There was a significant increase in provisions as a result adopting synchronized credit policy that provides for common provision rates for all the loans. Sugar Development Fund loan portfolio adopted from former Kenya Sugar Board was previously under provisioned. A large portion of the portfolio is non-performing hence the need for adequate provisions

Contingent liability

As at 30th June 2016 entity the Fund had pending which relate to legal claims by former employee estimated at Kshs. 2.0 Million. Judgment in respect of this case had not been determined as at end of the financial year. The amounts have not been provided for in these financial statements as it was not possible to accurately quantify the potential liability arising from it.

The Management are of the opinion that any outstanding litigation in this respect will not have a material effect on the financial position or results of the organization.

e) Originating loans and provision for loans impairment

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

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

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

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

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

f) Financial Risk Management Objectives and Policies

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

i) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the Fund's management. It is unusual for a lending institution's maturities and interest rates of assets and liabilities to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturity of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities, as they mature are important factors in assessing the liquidity of the Fund and its exposure to interest rates. The Fund does not maintain cash resources to meet all liabilities as they fall due as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

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. The Fund has no significant concentrations on credit risk. The Fund has policies in place to ensure loans are given to farmers with an appropriate credit history. The credit department assesses the credit quality of each farmer, taking into account their financial position, past credit experience and other factors.

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

Loan Category	Fully Performing	Past Due	Impaired	Total
Sugar Loans	2,369,532	6,200,628	5,638,870	14,209,030
Coffee loans	376,794	559,091	301,930	1,237,815
Total	2,746,327	6,759,718	5,940,801	15,446,846

Age in years	2015/2016	2014/15
Not due	2,746,327	5,068,158
0-1 year	3,691,907	2,023,403
1-3 years	1,184,521	871,745
3-5 years	1,883,291	2,070,846
Above 5 years	5,940,801	5,642,583
Total	15,446,846	15,676,736

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

Interest Category	Fully Performing	Past Due	Impaired	Total
Sugar Portfolio	42,197	1,189,093	1,613,455	2,844,746
Coffee Portfolio	16,832	109,858	43,638	170,328

Age in Years	2015/2016	2014/2015
Not Due	42197	281,304
0-1 year	389,746	104,370
1-3 years	236,408	108,086
3-5 years	689,629	592,536
Above 5 years	1,657,093	1,484,005
Total	3,015,074	2,570,301

f) Nature and purpose of reserves

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

g) Changes in accounting policies and estimates

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

h) Employee benefits

The Fund changed its terms for all staff except the Managing Trustee from on-contract employment to permanent and pensionable terms on March 1, 2012. The Fund operates a gratuity scheme for the Managing Trustee which is fully funded. The Fund has sponsored the establishment of a defined contribution pension scheme funded partly by the employees and partly by the Fund that is currently administered as a guaranteed scheme by Jubilee Insurance Company Ltd. Where employees are entitled to annual leave and long service awards, these are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave and long service awards as a result of services rendered by the employees up to the balance sheet date.

The Fund also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF) a national retirement benefit scheme. It also contributes to a statutory defined health insurance scheme the "National Hospital Insurance Fund" (NHIF). Both of these contributions are defined by local statutes.

The Fund's contributions to all the above schemes are charged to the Statement of Comprehensive Income in the year to which they relate.

i) 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.

j) Comparative figures

Comparative figures represent figures for the (11) months period ended 30th June 2015 and were necessary restated to conform to the requirement of IPSAS.

k) 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, 2016.

L) Critical Accounting Judgement and key sources of estimation uncertainty

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

(i) 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:

(ii) Equipment

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

(iii) 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.

(iv) Provisions and contingent liabilities

Management reviews fund's obligations at each balance sheet date to determine whether provisions need to be made and if there are any contingent liabilities.

3. Interest Income from Loans

	2015/2016	2014/2015
	<u>Shs 000</u>	<u>Shs 000</u>
Interest Income from Loans -Coffee Portfolio	82,138	99,203
-Sugar Portfolio	<u>465,269</u>	<u>363,450</u>
Total rentals	<u>547,407</u>	<u>462,653</u>

The Fund loan portfolio is held by coffee and sugarcane farmers. Interest income generated from the two portfolios is as broken as shown above.

4. Finance income - external investments

	2015/2016	2014/2015
	<u>Shs 000</u>	<u>Shs 000</u>
Government Securities(Bonds & T- Bills)	-	-
Fixed deposits	<u>154,374</u>	<u>73,765</u>
Total finance income – external investments	<u>154,374</u>	<u>73,765</u>

Surplus funds of the Fund are invested in both government securities (Treasury Bonds) and Short term deposits with the approved financial institutions. During the period the Fund received a total of Kshs. 154.4 million from investments. The average effective interest rates were 12% pa and 10.5% pa on both Treasury bond fixed deposits respectively.

5. Finance income - outstanding receivables

	2015/2016	2014/2015
	<u>Shs 000</u>	<u>Shs 000</u>
Accrued Interest	<u>24,208</u>	<u>17,529</u>
Total receivables finance income – outstanding	<u>24,208</u>	<u>17,529</u>

The accrued interest income earned on the above two instruments amounted to Ksh. 24. 2 million in 2016 compared to Ksh. 17. 5 million in 2015.

6. Other income

	2015/2016	2014/2015
	<u>Shs 000</u>	<u>Shs 000</u>
Loan Processing fee	8,316	7,515
Others	<u>528</u>	<u>528</u>
Total other income	<u>8,844</u>	<u>8,043</u>

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Loans and advances are processed at a fee (1.5%) and the total income generated from the activity in 2016 is Ksh. 8.8 million as compared to Ksh. 8.0 million in 2015.

7. Employee costs

	2015/2016	2014/2015
	<u>Shs 000</u>	<u>Shs 000</u>
Employee related costs - salaries and wages	47,410	40,514
Employee related costs - NSSF & Contributions to pensions	5,316	4,742
Medical expenses	<u>6,823</u>	<u>2,450</u>
Total	<u>59,548</u>	<u>47,705</u>

8. Board expenses

The Fund did not have the Board of Trustee for the last two years. Consequently no expenditure was incurred under this category.

9. Depreciation and amortization expense

	2015/2016	2014/2015
	<u>Shs 000</u>	<u>Shs 000</u>
Property, plant and equipment	<u>13,982</u>	<u>10,018</u>
Total depreciation and amortization	<u>13,982</u>	<u>10,018</u>

Depreciation breakdown is disclosed under note 16.

10. Repairs and maintenance

	2015/2016	2014/2015
	<u>Shs 000</u>	<u>Shs 000</u>
Buildings	24	107
Automobiles	1,839	2,948
Computer and Electronic Equipments	2,332	1,710
Office and Communication Equipment	-	50
Furniture and Fittings	<u>100</u>	<u>178</u>
Total	<u>4,295</u>	<u>4,994</u>

11. Operating / Administrative expenses

	2015/2016	2014/2015
	<u>Shs 000</u>	<u>Shs 000</u>
Printing and Stationery	1,119	2,537
Communication Telephone and Postage	1,218	914
Vehicle Running Expenses	3,233	2,574
Insurance Expenses	2,124	2,533
Local Travel Expenses	22,278	14,423
International travel	5,862	4,844
Security	472	708
Electricity and water	853	871
Rent and rates	7,945	6,454
Computer Accessories	809	885
Cleaning, Garbage & Sanitary	238	39
Management Fees	1,075	1,234
Newspapers, Periodicals, Journals and subscriptions	297	271
Advertising and Publicity	409	5,363
Bank Charges	499	422
Staff Welfare	842	405
Trainings, Seminar, Retreats and Workshops	14,243	10,234
Consultancies	1,489	725
Subscriptions to Professional Bodies	502	574
Audit Fees	696	696
Legal Services	1	46
Shows , Exhibitions & trade fairs	2,519	4,071
Corporate Social Responsibility	653	1,831
Provision for bad debts	538,533	3,107,561
Office general expenses	3,077	1,181
ICCP Expenses	<u>4,421</u>	<u>-</u>
Total general expenses	<u>615,410</u>	<u>3,171,397</u>

12. Cash and cash equivalents

	2015/2016	2014/2015
	<u>Kshs 000</u>	<u>Kshs 000</u>
(a) Bank:		
Cooperative Bank	14,523	30,159
National Bank	5,980	15,633
Sidian Bank	21,167	23
Equity Bank	35	-
Safaricom – Mkahawa	7,739	3,782
- PayBill	<u>1,487</u>	<u>552</u>
	<u>50,931</u>	<u>50,149</u>
(b) Cash on hand	100	100
(c) Short-term deposit		

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Cooperative Bank	220,431	204,645
Family Bank	505,798	300,686
Development Bank	463,306	276,015
Equity Bank	223,027	-
National Bank	54,000	260,994
Sidian Bank	-	20,000
	<u>1,466,562</u>	<u>1,062,340</u>
Total cash and cash equivalents	<u>1,517,593</u>	<u>1,112,589</u>

Cash and cash equivalent comprise of the bank balances, call deposits, cash balances and funds held in short term deposits.

13.(i) Current receivables from exchange transactions

	2015/2016	2014/2015
	<u>Shs 000</u>	<u>Shs 000</u>
Interest receivable from investments	<u>24,208</u>	<u>17,529</u>

Current receivables consists interest receivable from financial institutions in relation to the investments mainly short term deposits and Treasury bond.

13 (ii) Interest on loans and Advances

	2014/2015		
	Sugar- Restated	Coffee- Restated	Total Restated
	<u>Kshs 000</u>	<u>Kshs 000</u>	<u>Kshs 000</u>
Gross Interest on Loans and Advances	2,465,130	129,799	2,594,929
Provisions beginning of the year	1,212,766	-	1,212,766
Provisions Initially Charge in 2014/15	-	-	-
Additional due to change in policy	<u>345,641</u>	-	<u>345,641</u>
Restated provision as at 30.6.15	<u>1,558,407</u>	<u>-</u>	<u>1,558,407</u>
Net Interest on Loans and Advances Restated as at 30.6.15	<u>906,723</u>	<u>129,799</u>	<u>1,036,522</u>
	2015/2016		
	Sugar	Coffee	Total
	<u>Kshs 000</u>	<u>Kshs 000</u>	<u>Kshs 000</u>
Gross Interest on loans and Advances	2,844,746	170,328	3,015,074
Restated Provisions as at 01.07.15	1,558,407	-	1,558,407
Provision charge for the year	<u>157,056</u>	<u>53,699.58</u>	<u>210,756</u>
Total provisions as at 30.6.16	<u>1,715,463</u>	<u>53,699.58</u>	<u>1,769,163</u>
Net Interest on Loans and Advances as at 30.6.16	<u>1,129,283</u>	<u>116,628</u>	<u>1,245,911</u>

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Interest on loans and advances is reported net of provisions as applicable for the two loan categories managed by the Fund.

14. Receivables from non-exchange transactions

	2015/2016	2014/2015
	<u>Kshs 000</u>	<u>Kshs 000</u>
Funds held by Intermediaries	34,753	34,753
Prepayments	4,042	4,859
Staff debtors	78	316
Other Debtors	<u>37,937</u>	<u>36</u>
	<u>76,810</u>	<u>39,964</u>
Less Provisions on Receivables from non-Exchange contracts	<u>34,753</u>	-
Total current receivables	<u>42,057</u>	<u>39,964</u>

The Fund till 2012 disbursed its loans through intermediaries who held a total of Kshs.34.7million by the time this lending model was discontinued. The Fund is in process of recovering the amounts from the concerned intermediaries.

15. Investment in government securities	2015/2016	2014/2015
	<u>Kshs 000</u>	<u>Kshs 000</u>
12 year GOK infrastructure bond	<u>76,500</u>	<u>150,000</u>
	<u>76,500</u>	<u>150,000</u>

The above 12 year bond held with the Government of Kenya earns interest at 12% pa paid semi- annually. The bond will mature in December 2021.

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16. Property, plant and equipment

	Land	Buildings	Plant and Equipment	Automobiles	Computer and Electronic Equipments	Office and Communication Equipment	Furniture and Fittings	TOTAL
Cost	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000
At 31 July 2014	0	0	0	21,570	47,724	2,771	24,457	96,522
Additions				10,589	2,080	-	1,588	14,257
Disposals								-
Transfers/adjustments				-	-	-	-	-
At 30 June 2015	-	-	-	32,159	49,804	2,771	26,045	110,779
Additions	-	-	-	18,501	6,024	22	70	24,617
Disposals	-	-	-	-	-	-	-	-
Transfer/adjustments	-	-	-	-	-	-	-	-
At 30 June 2016	-	-	-	50,660	55,828	2,793	26,115	135,396
Depreciation and impairment								
At 31 July 2014	-	-	-	(15,284)	(40,598)	(2,205)	(2,935)	(61,022)
Depreciation	-	-	-	(3,172)	(3,599)	(396)	(2,850)	(10,017)
Impairment	-	-	-	-	-	-	-	-
At 30 June 2015	-	-	-	(18,456)	(44,197)	(2,601)	(5,785)	(71,040)
Depreciation	-	-	-	(7,060)	(3,491)	(132)	(3,299)	(13,982)
Disposals	-	-	-	-	-	-	-	-
Impairment	-	-	-	-	-	-	-	-
Transfer/adjustment	-	-	-	-	-	-	-	-
At 30 June 2016	-	-	-	(25,516)	(47,688)	(2,733)	(9,084)	(85,022)
Net book values								
At 30 June 2016	-	-	-	25,145	8,140	60	17,030	50,375
At 30 June 2015	-	-	-	13,703	5,607	170	20,260	39,739

17. (i) Current Receivables loans and advances from exchange transactions

	2015/2016			2014/2015		
	Sugar	Coffee	Total	Sugar- Restated	Coffee- Restated	Total- Restated
	<u>Kshs 000</u>	<u>Kshs 000</u>	<u>Kshs 000</u>	<u>Kshs 000</u>	<u>Kshs 000</u>	<u>Kshs 000</u>
Gross Loans and Advances	14,209,030	1,237,815	15,446,846	14,626,154	1,033,814	15,659,968
Provision at the beginning of the year	5,845,719	145,159	5,990,878	3,175,638	53,321	3,228,959
Provision charged during the year	115,362	177,663	293,025	2,670,081	91,838	2,761,919
Total provisions at the end of the year	<u>5,961,081</u>	<u>322,822</u>	<u>6,283,903</u>	<u>5,845,719</u>	<u>145,159</u>	<u>5,990,878</u>
Net Loans and Advances at the end of the year	<u>8,247,949</u>	<u>914,993</u>	<u>9,162,943</u>	<u>8,780,435</u>	<u>888,654</u>	<u>9,669,090</u>
Short term Portion	497,316	247,552	744,868	486,900	270,188	757,088

17. (ii) Loans and advances from exchange transactions

	2015/2016			2014/2015		
	Sugar	Coffee	Total	Sugar- Restated	Coffee- Restated	Total-Restated
	<u>Kshs 000</u>	<u>Kshs 000</u>	<u>Kshs 000</u>	<u>Kshs 000</u>	<u>Kshs 000</u>	<u>Kshs 000</u>
Gross Loans and Advances	14,209,030	1,237,815	15,446,846	14,626,154	1,033,814	15,659,968
Provision at the beginning of the year	5,845,719	145,159	5,990,878	3,175,638	53,321	3,228,959
Provision charged during the year	115,362	177,663	293,025	2,670,081	91,838	2,761,919
Total provisions at the end of the year	<u>5,961,081</u>	<u>322,822</u>	<u>6,283,903</u>	<u>5,845,719</u>	<u>145,159</u>	<u>5,990,878</u>
Net Loans and Advances at the end of the year	<u>8,247,949</u>	<u>914,993</u>	<u>9,162,943</u>	<u>8,780,435</u>	<u>888,654</u>	<u>9,669,090</u>
Long term Portion	<u>7,750,634</u>	<u>667,441</u>	<u>8,418,075</u>	<u>8,293,535</u>	<u>618,466</u>	<u>8,912,002</u>

Long term loans and advances include loans whose recovery exceeds one financial year while the current loans and advances comprise the portion of the whole loans that is recoverable within financial year. Provisions for non-performing loans were enhanced during the year after realization that the existing provisions were inadequate to cover all non-performing loans. Following that revision, financial statements were restated where a total of Kshs.2.7 billion of the additional provision was charged to year 2014/15. The provisions were based on the revised credit policy adopted during the year.

18. Trade and other payables from exchange transactions

	2015/2016	2014/2015
	<u>Kshs 000</u>	<u>Kshs 000</u>
Trade payables	29,949	3,730
Third party payable	2,791	2,801
Other payables	49	549
Sundry creditors	-	<u>13,152</u>
Total trade and other payables	<u>32,789</u>	<u>20,232</u>

Trade and other payables comprise of liabilities in relation to the day to day transactions of the Fund.

19. Commissions payables	2015/2016	2014/2015
	<u>Ksh 000</u>	<u>Ksh 000</u>
Commissions payables	<u>76,728</u>	<u>76,728</u>
Total commissions payables	<u>76,728</u>	<u>76,728</u>

The Fund was until 2011/12 partly disbursing loans and advances through intermediaries. Intermediaries' would be credited with 55% of loans interest they aided to collect and remitted to the Fund. The Fund has since moved away from this lending model to direct lending that does not attract commissions. The commissions payable amounting to Ksh.76million that was provision has remained unclaimed and the Fund will seek appropriate approvals for write off.

20. Reserves

	Sugar	Coffee		
	Revolving Fund Sugar	Revolving Fund Coffee	Revaluation Reserve	Total
	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Balance As At 30.06. 2015	13,138,573	1,675,206	3,421	14,817,200
Restatement items				
Reversal of share of Levy expected from AFA in 2014/15	(347,111)	-	-	(347,111)
Reversal of loan repayments receipts held by AFA in 2014/15	(140,001)			(140,001)
Adjustment of overstated Loans Balances inherited from AFA	(14,016)	-	-	(14,016)
Adjustment of understated Interest on Loans inherited from AFA	24,629	-	-	24,629
Restated deficit for 2014/2015	-	0		-
Restated Balances As At 30.06.2015	12,662,074	1,675,206	3,421	14,340,701
Restated Balance As At 01.07.2015	12,662,074	1,675,206	3,421	14,340,701
Adjustment in 2015/16	-	-	-	-
Balance As At 30 .06. 2016	12,662,074	1,675,206	3,421	14,340,701

21. Revenue Reserves

	<u>Kshs'000'</u>
Balance As At 30.06. 2015	681,323
Restated items	
Increase in loans and interest provisions	(3,050,010)
Adjustment of Interest income in 2014/15 by withholding tax return reported	(2,752)
Prepayments for 2013/2014	(1,823)
Reversal Excess provisions on gratuity and publishing cost for prior years	1,032
Restated Balances As At 30.06.2015	<u>(2,372,229)</u>
Restated Balance As At 01.07.2015	<u>(2,372,229)</u>
Surplus for the period	41,598
Revenue Reserve reported balance As At 30 .06. 2016	<u>(2,330,631)</u>

22. Related Parties

The Management regards a related party as a person or an authority with the ability to exert control individually, jointly or to exercise significant influence over the Management, or vice versa. Within the Fund, Directors and members of key management are viewed as related parties while outside the Fund Agriculture and Food Authority (AFA) was taken as related party. However, the Fund did not have a board of directors during period.

Transactions with related parties are summarised as follows:

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

i) Aggregate remuneration to key management	2015/2016	2014/2015
	<u>Ksh 000</u>	<u>Ksh 000</u>
Salaries, allowances & benefits	20,519	17,703

The above figures exclude remuneration to two members of the key management disclosed on page (iv) who drew their remuneration and benefits from Agriculture and Food Authority (AFA). The Fund is in the process of transferring them and other none key management staff from AFA to Commodities Fund payroll.

ii) Due to related parties

As stated in 23(ii) the Fund was formed to offer credit and advances to farmers for the development of crops regulated by AFA. However, in 2015/16 AFA continued to disburse loans to the sugar sector alongside the Fund. As a result some customer who benefited from loans from AFA channelled their loan repayments to Commodities Fund. Funds received relating to AFA loans but not forwarded to AFA are summarized as follows:

	2015/2016	2014/2015
	<u>Ksh 000</u>	<u>Ksh 000</u>
Loan repayment funds	18,000	-

23. Notes explaining the variances between the budget and the actual amounts

- a. The internally generated income exceeded the budget by **Kshs. 391 million** mainly due to under budgeted income on interest on loans. During budgeting there were uncertainties on hand over of SDF portfolio to commodities which led to under budgeting. Secondly, the market interest rates on short term deposits contributed to the positive variance.
- b. Sugar levy grant of **Kshs.596 million** expected from AFA was never received hence the negative variance on the budget line.
- c. Other incomes include loan processing fee and miscellaneous receipts. The Fund budgeted **Kshs. 2.9 million** but realized **Kshs. 8.043 million** resulting to positive variance of **Kshs.5.9 million**. The variance is attributed to increased Loans processed and disbursed during the year.
- d. The personnel expenditure stood at **Kshs. 59.5 million** against budget of **Kshs.143.3 million** resulting to positive variance of **Kshs. 83.8 million**. The huge variances were due to the fact that the budgeted salary adjustments were not implemented pending conclusion of on-going job evaluation exercise by the SRC. Secondly the Fund had budgeted to employ additional staff during the year but this was not implemented pending conclusion of the above said exercise.
- e. The **Board expenses** budgeted at **Kshs.15. 6 million** was not spent since the office remained vacant. The Fund had anticipated to have a Board in place in the financial year but did not happen.
- f. Credit Management which is the core business of the Fund incurred a total of **Kshs 554.4 million** against a budget of **Kshs. 48.7 million**. This huge negative variance was as a result of the Fund adopting synchronized credit policy that provides for common provision rates for all the loans managed by the Fund, hence increased provision from **Kshs 15 Million** in 2014/2015 to **Kshs 538.5 million** in 2015/2016. On the other hand other loan management expenses amounted to **Kshs.15.9 million** resulting to a positive variance of **Kshs 4.4 million**. This positive variance was due to slowed credit activities occasioned by lengthy credit approval period in the first half year of the financial year.
- g. Corporate communications vote incurred **Kshs.4.0 million** against budget of **Kshs. 21.3 million** resulting to positive variance of **Kshs.17.3 million**. The Fund had planned to carry out branding and marketing activities that were pegged on opening of new branches. The Government circular on controlled expenditure on rebranding activities, advertising, and printing of promotional materials also hindered implementation of the planned activities.
- h. Human resource vote comprising of training, staff welfare and consultancies incurred a total of **Kshs.16.6 million** against budget of **Kshs.25.1 million** resulting to savings of **Kshs.9.128 million**. The savings was mainly as a result of government circular on controlled expenditure on training and non-hiring of additional staff as planned.
- i. Audit Fees incurred was **Kshs.0.696 million** against budget of **Kshs.1.2 million** resulting to budget variance of **Kshs.0.504 million**. The Fund had anticipated an increase in auditing fee during the financial year but did not happen.
- j. Legal cost vote incurred **Kshs.0.001 million** against budget of **Kshs.2 million** resulting to savings of **Kshs.1.99 million**. The savings are attributed to the fact the anticipated legal matter had not been concluded by the end of the financial year.
- k. Finance & Administrative cost incurred **Kshs. 38.7 million** against budget of **Kshs. 56.4 million** resulting to a positive variance of **Kshs. 17.6 million** .This positive variance is attributed to fact that opening of branches where some funds would have been spent to pay rent , water, electricity, cleaning, security and other staff operation expenses did not take place.

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1. Repairs and Maintenance Vote incurred Kshs. 5.1 million against a budget of Kshs. 7.7 million resulting to a positive variance of Kshs. 2.6 million. The savings is due to fact that fewer incidences of breakages /damages were reported during the period. The Fund is also currently running fairly new fleet of motor vehicle hence reduced cost of repairs.

24. Events after the reporting period
There are no material non-adjusting events after the reporting date.

XV. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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)
1.1	As previously reported, and disclosed under note 17 to the accounts, the financial statements as at 30 th June 2005 position reflects Loans and advances totaling Kshs.11,633,137,000 from the former Sugar Development Fund and coffee development Fund of Ksh.10,928,003,000 and 705,134, respectively. This figure however include non-performing loans totaling to Ksh.5,565,961,068 advanced to various companies some of which are under receivership of Ksh.1,227,735,409. Although the management has made provisions of Ksh.3,228,018,813 and Ksh.1,212,766,179 for loans and accrued interest respectively amounting to Ksh.4,440,784,992, any provision that would be necessary in relation to the provision has not been made in this financial statement. The provision of Ksh.1,212,766,179 on amount and were processed and	As correctly reported the above figure includes performing non-loans to amounting Kshs.5,565,961,068. The provision of 3,228,018,813 and 1,212,766,179 on both principal amount and accrued interest was provided. During Financial year 2015/16 Management enhanced provisions to Ksh. 5,961,045,000 and Ksh.1,715,463,000 for principal and accrued interest respectively. The revised provisions now cover the non-performing loans sufficiently.	Managing Trustee, Credit Manager & Finance Manager	Resolved	Resolved

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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>accrued interest was provided.</p> <p>1.2 The loan balance of 11,633,137,000 also includes amounts totaling Kshs 1,915,615,011 advance to five sugar Companies in the period under review including one under receivership. Although the management has explained that the loans were processed and disbursed by AFA- Sugar Directorate, no evidence was produced for audit verification. There were no alternative procedures to satisfy myself as to the fair statement of these loans.</p>	<p>disbursed by AFA- Sugar Directorate. The loans were adopted by Commodities Fund at the end of financial year. During the audit process the Fund provided approval minutes as received from AFA Sugar Directorate. Any evidence on those loans would be provided by AFA- Sugar directorate. It is true the current receivables of Ksh.1,862,175,000 disclosed in note 13 (ii) in the accounts excluded Ksh.146,717,000 due from former Sugar Development Fund relating to the expenses incurred by the Fund on behalf of various institutions, some of which were under receivership.</p>	<p>Managing Trustee and Finance manager</p>	<p>Resolved</p>	<p>Resolved</p>
			<p>Managing</p>	<p>Resol</p>	