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KENYA NATIONAL AUDIT OFFICE



**REPORT**

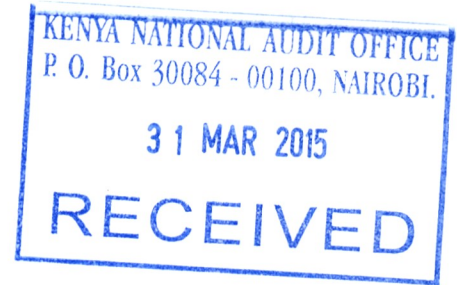
**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF SUGAR  
DEVELOPMENT FUND**

**FOR THE THIRTEEN MONTHS  
PERIOD ENDED  
31 JULY 2014**



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**SUGAR DEVELOPMENT FUND**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED  
JULY 31, 2014 (THIRTEEN MONTHS)**

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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 Kenya Sugar Board (KSB) is a public body set up by the Sugar Act, 2001, under the Ministry of Agriculture. The Board is mandated to:

- i. Regulate, develop and promote the sugar industry
- ii. Co-ordinate the activities of individuals and organisations in the industry
- iii. Facilitate equitable access to the benefits and resources of the industry by all interested parties including Kenya Sugar Research Foundation (KESREF).

### Sugar Development Fund:

This was a fund which was established in 1992 to create a revolving fund for financing the activities of the Sugar Industry in Kenya. A sugar development levy of 4% of the ex-factory price is charged by the Kenya Government on all sugar sales. This levy is collected by the Kenya Revenue Authority and is managed by KSB as the Sugar Development Fund (SDF). After 22 years of implementation, SDF has grown to become the single largest source of funding for the industry. The fund allocation per component is as below:

Prescribed reserves	15% of gross Levy
Sharing of the remaining 85% of the levy:	
Kenya Sugar Board	1.4/4
Kenya Sugar Research Foundation	0.94/4
Roads and Infrastructure	0.29/4
Cane Development	0.66/4
Factory Rehabilitation	0.71/4

### (b) Principal Activities

The principal activity of the Fund which was established in 1992 is to create a revolving fund of financing the activities of the Sugar Industry in Kenya.

### (c) Key Management

The Kenya Sugar Board-Sugar Development Fund's day-to-day management was under the following key organs:

- The Board of Directors; and
- The Management Team.

**(d) Fiduciary Management**

The key management personnel who held office during the financial year ended 31<sup>st</sup> July 2014 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Chief Executive Officer	Ms. Rosemary Mkok
2.	Company Secretary	Mr. Andrew Osodo
3.	Ag. Head of Finance	Mr. Silas Nyaga
4.	Head of SDF Portfolio	Mr. Solomon Odera

**(e) Fiduciary Oversight Arrangements**

SDF fund was managed by a select committee of the Board comprising the below listed members:

1.	Mr. N. Oricho	- Chairman
2.	Eng. M. Mukhwana	- Member
3.	Mr. S. Busolo	- Member
4.	Mr. H. Patel	- Member
5.	Ms. A. Mugo	- Member
6.	Mr. J. Rai	- Member
7.	Mr. E. Mwombe	- Member
8.	Ms. T. Gichana	- Member
9.	Ms. M. Ngugi	- Member
10.	Ms. R. Mkok	- Member

**(f) Headquarters**

Sukari Plaza  
Off- Waiyaki Way  
P. O. Box 51500- 00200  
NAIROBI

**(g) Contacts**

Telephone: (254) 020 8018753  
E-mail: [info@kenyasugar.co.ke](mailto:info@kenyasugar.co.ke)  
Website: [www.kenyasugar.co.ke](http://www.kenyasugar.co.ke)

**(h) Bankers**

- |                            |                      |
|----------------------------|----------------------|
| 1. Standard Chartered Bank | - Westlands          |
| 2. Barclays Bank           | - Westlands          |
| 3. Co-operative Bank       | - Co-operative House |

**(i) Independent Auditors**







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

**(j) Principal Legal Adviser**

The Attorney General  
State Law Office  
Harambee Avenue  
P.O. Box 40112-00200  
NAIROBI





## THE BOARD OF DIRECTORS

NAMES OF MEMBERS	FULL NAMES OF CHAIRMAN, CEO AND BOARD OF DIRECTORS	DESIGNATION	GENDER	AGE	COUNTY OF BIRTH	DATE OF APPOINTMENT	DATE OF EXPIRY	ACADEMIC & PROFESSIONAL QUALIFICATIONS	EXPERIENCE	CONTRACT PERIOD	TERM SERVED
	 Hon. Kiptorus Arap Kirior	Chairman	Male	68	Kericho	27/3/2012	27/3/2015	EACE, Trained Teacher	52	3	1
Kenya Sugar Board	 Ms. Rosemary Mkok	CEO	Female	52	Busia	15/12/2008	15/12/2014	LLB, Post Grad Dip. in legal Studies, CPS (K), MBA	28	3	2
Kenya Sugar Board	 Mr. Billy Wanjala Mukenya	Director	Male	65	Bungoma	1/3/2012	1/3/2015	BCOM CPA (K) CPS (K)	39	3	2
Kenya Sugar Board	 Eng. Mukhwana Mohammed, HSC	Director	Male	62	Kakamega	1/3/2012	1/3/2015	BSC (Civil Engineering) MSC (Airport Planning)	36	3	2
Kenya Sugar Board	 Hon. Saulo Wanambisi Busolo	Director	Male	55	Bungoma	1/3/2012	1/3/2015	M.A (Political Science) & BA (Public Administration)	31	3	4
Kenya Sugar Board	 Mr. Ewing Makhakha Mwombe	Director	Male	53	Kakamega	1/3/2013	1/3/2015	A-Level	29	3	2

Kenya Sugar Board		Director	Male	44	Kakamega	1/3/2013	1/3/2015	Higher Secondary Education, India	24	3	
	Mr. Himesh Patel										
Kenya Sugar Board		Director	Male	43	Kisumu	1/3/2013	1/3/2015	Masters Degree in Business Administration, BED Arts	20	3	2
	Mr. Nicholas Oricho										
Kenya Sugar Board		Director	Male			27/8/2012	1/3/2015			3	1
	Mr. Jaswant Rai, MBS										
Kenya Sugar Board		Director Ag. Agriculture Secretary	Female	54	Nairobi	1/3/2012	1/3/2015	M.SC Agricultural and Rural Development B.SC General Agriculture	32	3	1
	Ms. Anne Onyango Akinyi, MBS										
Kenya Sugar Board		Director Rep. PS, State Department of Agriculture	Female	56		22/8/2013	1/3/2015	BCOM (Business Administration Honors)		3	1
	Ms. Alice W. Gichu										
Kenya Sugar Board		Director Rep. PS, National Treasury	Female			27/7/2012	1/3/2015	MBA (Finance B Com (First Class Honors) member Institute of Directors (Kenya), Chevening Scholars Association of Kenya (CHAK), Chartered Insurance Institute (London), African Association of Public Administrators and Managers (AAPAM)	25	3	1
	Ms. Anne Kagure Mugo, MBS										

## II. MANAGEMENT TEAM

Name and key profession/academic qualifications	Main area of responsibility
 <p><i>Rosemary Mkok, MBS</i> Rosemary is a lawyer by profession and holds a Bachelor of Laws (LLB) degree from the University of Nairobi and an MBA Degree from the Eastern and Southern African Management Institute (ESAMI). She is a Certified Public Secretary (CPS-K) and holds a Post graduate Diploma in Legal studies from the Kenya School of Law</p>	Chief Executive officer
 <p><i>Andrew Osodo</i> Andrew holds a Bachelor of Law Degree from the University of Nairobi, and MBA Degree in Strategic Management. He is a member of the Institute of Certified Public Secretaries of Kenya (ICPSK)</p>	Company Secretary
 <p><i>Peter Lukoye</i> Peter holds a Bachelor of Arts Degree in Sociology and Economics from the University of Nairobi.</p>	Human Resources Manager
 <p><i>Patricia Njeru</i> Patricia holds a Master of Economics in Agricultural Economics. She holds a Diploma in resource Economics from University of New England New South Wales, Australia. She is also a graduate of Bachelor of Science in Agricultural Economics from the Egerton University, Njoro.</p>	Head Planning
 <p><i>Solomon Odera</i> Solomon holds a BSc. Business Administration, major in Accounting &amp; Financial Management from United States International University (USIU). He is a member of the Kenya Institute of Management (KIM).</p>	Sugar Development Portfolio Manager
 <p><i>Fredrick Kebeney</i> Fredrick is a trained Agriculturalist with a Bachelor of Science Degree in Agriculture and specialized in sugarcane agronomy.</p>	Head of Agriculture

 <p><i>Nahashon Aseka</i> Nahashon holds an MSC engineering degree. He also holds a BSC degree in Chemistry and an MBA.</p>	<p>Head of Sugar Technology</p>
 <p><i>Emma Malinda</i> Emma holds an MBA from East and Southern Management Institute (ESAMI) &amp; Maastricht Institute (Netherlands). She is a member of the Institute of Certified Public Accounts of Kenya (ICPAK)</p>	<p>Head of Internal Audit</p>
 <p><i>Silas Nyaga</i> Silas holds a Bachelor of Commerce Degree and an MBA and from Kenyatta University. He is also a certified Public Accountant and a member of ICPAK</p>	<p>AG. Head of Finance</p>
 <p><i>Denis Gaya</i> Denis holds a BSC degree in Information Technology and an MBA in strategic management.</p>	<p>ICT Manager</p>

### III. CHAIRMAN'S STATEMENT

#### MESSAGE FROM THE CHAIRMAN

The Sugar sub-sector plays a significant role in the economy of this country. Besides ensuring adequate supply of sugar for national consumption, the sugar sector continues to contribute significantly to the agricultural Gross Domestic Product and saves the economy in excess of US \$250 million (KShs.16.5 billion) in foreign exchange through import substitution.

The Kenya Sugar Board is the apex body charged with the responsibility of regulating, developing and promoting the Sugar Industry. Our vision is to be the best facilitator and regulator of a world class sugar cane multiproduct industry. The financial profitability of the institution and the industry is one of the key indicators of our performance with regard to the actualization of our vision. To enable us drive the industry towards the realization of this vision, we redefined the requisite strategic interventions which includes enhancing Sugar Industry competitiveness through reduction of risk, efficient farming, milling operations and enhanced human resource capacity.

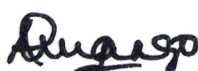
During the year under review, the Board participated in the development of a national policy that supports the production, blending and marketing of ethanol. We are currently negotiating for increased tariffs for cogenerated electricity, to motivate more millers to invest in cogeneration on a commercial basis.

Currently the industry is expanding with the licensing of new milling companies which will see the local sugar production rise to meet the national sugar demands. This venture is capital intensive and we are aggressively pursuing partnership with private investors to inject more capital into the industry.

We are committed to efficiently manage and harness both human and economic resources, enhancing our operational efficiencies and adoption of prudent financial management practices for industry growth. Towards this end we have put in place effective policies and systems to guide us in all our financial and technical operations. We also continue to build capacities in the industry to ensure that all institutions in the sector engage in prudent financial management practices in order to gain a good return on investment for its stakeholders.

The resources required to adequately achieve these objectives often outweigh what is at our disposal. This among other global macro-economic concerns inevitably challenge us as an institution and the industry. We however, believe that these challenges present us with opportunities to continuously re-evaluate our policies, strategies and working culture in order to obtain our intended objectives with minimal resources, without compromising the quality of our service.

Finally, on my behalf and that of the Board we affirm our commitment towards the development of an efficient, competitive and sustainable sugar industry in Kenya.



**A. ONYANGO**

**ALTERNATE DIRECTOR, FOR BOARD CHAIRMAN.**

## IV. REPORT OF THE CHIEF EXECUTIVE OFFICER

### SUGAR DEVELOPMENT FUND

During the thirteen month period ended 31st July 2014, the Fund reported a surplus of Kshs.357 million compared to Kshs.469 million reported in the twelve months to 30th June 2013.

The total Revenue for the period under review was Kshs.2.58 billion which was about the same level of Kshs.2.56 billion netted in the financial year 2012/2013. Interest income dropped by 12.9% from 823 million to 717 million due to a decline in the amount invested while levy income grew from Kshs.1.73 billion to Kshs.1.86 billion representing a 7.7% increase.

Total expenses were 5.4% higher at Kshs.1.29 billion compared to Kshs.1.22 billion in the previous 12 month period. The minimal increase is attributable to dissimilar reporting period duration.

The Fund's Net Worth declined by 5.8% from Kshs.17.38 billion to Kshs.16.38 billion. The main drivers were additional provisions for Bad Debts made in the year.

### STATUS OF THE KENYA SUGAR INDUSTRY

#### 1. General Performance

The industry observed an increase of 5% in the area under cane in the year 2013/14. An area of 217,859 ha was recorded in 2013/2014 as compared to 207,802 ha at the end of 2012/2013. This is attributed to increased cane development especially in the Outgrower farms. Despite this, a notable reduction (9%) in area under cane was recorded in Mumias Sugar zone resulting from farmers' disillusionment and subsequent withdrawal from cane farming.

The average industry cane yields increased from 54.83 TCH in 2012/13 to 66.3 TCH at the end of 2013/2014 financial year. This was attributed to control on harvesting of immature cane coupled with good cane husbandry practices. All millers other than Mumias and Kibos Sugar mills received adequate cane for milling during the financial year. In the financial year 2014/15 the industry is projected to have a cane deficit of approximately 900,000 tons with Mumias Sugar zone being the major contributor to the deficit. The most dominant varieties in the industry were CO421 (38%), CO 945 (23%), and CO 617 (17%). Among the improved cane varieties, a significant adoption of KEN 83-737 was observed attributed to its adaptability to various agro-ecological zones.

#### 2. Sugar production, sales and stocks

Total sugar production during the period 2013/2014 fiscal year was 654,211 tonnes compared to 475,743 tonnes in the same period last year, giving a considerable increase of 38%, attributed to improved cane availability. All the sugar mills reported increased sugar production in July 2013 – June 2014 compared to the same period last year, other than Nzoia and Soin whose production decrease by 10% and 25% respectively. Production decrease in Nzoia Sugar Company was ascribed to factory close down in April and May 2014 for annual maintenance. Reduction in sugar production at Soin was a result of frequent unscheduled factory shutdowns occasioned by breakdowns, poor sugar recoveries and factory inefficiency attributed to its open pan sulphitation technology.

Overallally, Mumias Sugar Company was the leading sugar producer with 27 % followed by West Kenya Sugar Company at 13% of the total sugar production in 2013/2014.

Total sugar sales for 2013/2014 were 655,310 tonnes compared to 460,152 tonnes in the same period last year, a 42% increase, mainly attributed to increased domestic sugar supply and demand; and low availability of imported sugar in the domestic market. During the period 2013/2014; a total of 50,970 tonnes of table sugar (mill white / brown) was imported compared to 88,213 in the same period last year, a 42% decrease.

Closing stocks of sugar held by the factories at the end of the year 2013/2014 stood at 27,392 tonnes up from 19,205 tonnes at the end of 2012/2013. The level increased to a high of 42,845 tonnes in February 2014 and embarked on a decreasing trend to end June 2014 at 20,202 tonnes. The higher sugar stocks are attributed to sustained high sugar production and carry forward of stocks from the previous year.

### 3. Sugar Prices

Ex-factory sugar prices commenced the year 2013/2014 at a monthly average of kshs.4,425 per 50kg-bag reaching a low of kshs. 3,356 in March 2014.

Overall ex-factory sugar prices in 2013/2014 ranged between kshs.2,900 and 4,700, giving an average of Ksh.3,771 per 50kg bag (Kshs.75,420 per tonne) compared to Kshs.4,975 per bag (Kshs.99,500 per tonne) observed in 2012/2013 financial year, giving a significant decrease of 24%.

Wholesale sugar prices started the review period, July 2013 - June 2014, at a monthly average of Kshs.4,680 per 50kg bag reaching a low of ksh.3,495 in March 2014. The succeeding months traded on an upward trend to end June 2014 at a monthly average of kshs.3,750 per bag.

Retail sugar prices in 2013/2014 traded at a range of kshs.70 to 160 per kg, giving an average of Kshs.112.48 per kg compared to an average of kshs.122.62 per kg observed in the same period last year, a decrease of 8%.

### 4. World market sugar highlights

World prices for both raw and white sugar kept moving sideways in a relatively narrow range. Spot price for raw sugar (the ISA daily price) began the year 2013/2014 at a monthly average of USD 16.84 cents/lb (USD 371.15/tonne), picked an upward trend to reach an annual high of USD 18.66 cents/lb (USD 411.27/tonne) in October 2013. Subsequently, the ISA daily price went through a downward correction to attain a low of 15.63 cents/lb (USD 344.49/tonne) in January 2014. Some price improvement was observed in the succeeding months to end the review period at USD 18.17 cents/lb (USD 400.47/tonne).

Overall, the financial year 2013/2014 ended at an average of USD 382.67/tonne compared to USD 423.98/tonne in the same period last year, giving 10% decrease.

Total sugar imports in 2013/2014 were 172,924 tonnes compared to 226,011 tonnes in the financial year 2012/2013, a decrease of 23%. The decrease is mainly attributed to low imports of brown/mill white sugar during the review period. A total of 50,970 tonnes of table sugar was imported in 2013/14 compared to 88,213 tonnes imported in 2012/13, a decrease of 42%.

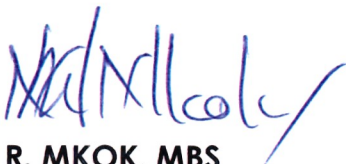
COMESA countries supplied a total of 48,910 tonnes against 86,230 tonnes in the same period last year. EAC provided 3,102 tonnes compared to 16,842 tonnes in 2012/2013 while the remaining (120,912 tonnes) was sourced from the rest of the world. Decrease in imports from the referenced

region is mainly attributed to low supply from the region, improved surveillance and the import regulatory regime.

Most of the imported sugar was sourced from Thailand, Saudi Arabia and South Africa with 44,325 tonnes, 37,495 tonnes and 32,866 tonnes, respectively.

Total sugar exports during the financial year 2013/2014 were 223 tonnes compared to 189 tonnes reported in 2012/2013. Bulk of the sugar was exported to Burundi (90 tonnes), Uganda (70 tonnes) and Somalia (46 tonnes). It is observed that there was a significant increase in exports of sugar by-product (mostly jaggery), to the neighboring countries. A total 128 tonnes was exported in 2013/14 against 0.2 tonnes in the same period last year.

The average CIF value for the financial year 2013/14 was kshs. 57,112 compared with kshs. 64,352 per tonne in 2012/2013, a price decrease of 11%.



**R. MKOK, MBS**  
**CHIEF EXECUTIVE OFFICER**

## V. CORPORATE GOVERNANCE STATEMENT

Kenya Sugar Board is fully committed to principles of good corporate governance. The directors are ultimately accountable to all stakeholders for ensuring the Board discharges its mandate with the highest standards of corporate governance. Of particular importance to the Board is observance of stakeholders' interest, efficient practices, integrity and transparency within the Board.

### 1. Board of Directors

The names of the directors who held the office during the period under review are set out on page v and vi.

The Board is responsible for formulating policies and strategies and ensuring Board's mandate of promoting, developing and regulating the Industry is carried out in the best interest of stakeholders.

The Board comprises fourteen directors, seven elected by cane farmers, three elected by millers, three government representatives and the Chief Executive Officer of the institution who is an ex-officio member and Secretary to the Board.

The directors have diverse skills drawn from various sectors of the economy.

#### a) Directors Emoluments

Directors' emolument is guided by Government circular Ref. No MSPS.18/2A/89 of November 2009. The aggregate amount of emoluments to directors for the services rendered and insurance cover are disclosed in Note. 10 to financial statements of Kenya Sugar Board for period ended 31st July 2014.

#### b) Related party transactions

There have been no materially significant related party transactions or relationship between the Fund and the directors or management except those disclosed in notes to KSB financial statement for the year ended 31st July 2014.

Transactions between the Sugar Development Fund and the Board are disclosed under notes 6 and 15 respectively.

### 2. Board Committees

Kenya Sugar Board has in place five main Committees namely, the Finance and Establishment, Audit, Sugar Development Fund, Cane pricing and COMESA Committees. To discharge its mandate effectively the Board delegates its authority to the various Committees whose chairpersons report to the Board. These Committees assist the Board in ensuring that proper strategies, internal controls and organization structure are in place to achieve the objectives of the Board. All the Committees have detailed terms of reference and hold meetings as necessary.

The Board may delegate some of its powers to any of the Committees and may appoint any other Committee, including ad hoc task forces, as and when it is deems necessary. The authority of running the Board management affairs on day to day basis is delegated to the Chief Executive officer.

#### **a. Finance and Establishment Committee**

The Committee is made up of five Directors including the Chair and the Chief Executive Officer. The Company Secretary serves as the Secretary to the Committee. The primary responsibility of the Committee is to assist the Board in developing and managing an effective and sustainable institutional capacity (Physical, human and financial) that will enable achievement of the core mandate of the Board and providing an avenue for communication among relevant stakeholders, management and the board.

#### **b. Audit Committee**

The Committee is made up of two elected Directors, two Government Directors and the head of Internal Audit who serves as the Secretary to the Committee. The responsibilities of the Committee include the review of financial information and monitoring of the effectiveness of the management information and internal control systems. The Committee receives reports from both internal and external auditors and also monitors implementation of audit recommendations on behalf of the Board.

#### **c. Sugar Development Fund (SDF) Committee**

The Committee is made up of a Fund Manager, eight Board members including the chairperson and the Chief Executive Officer.

The primary responsibility of the Committee is the administration and management of Sugar Development Fund including policy formulation. The Committee receives and approves all loan and grant applications by eligible Sugar Industry players.

#### **d. Cane Pricing Committee**

The CPC is established under Part 3, clause 8 (1) of the Sugar Act 2001.

The Committee comprises four KSB representatives, two KESGA representatives and two KESMA representatives. The main objective of the Committee is to review sugar cane prices which shall be determined on the basis of sucrose content.

#### **f. Comesa Safeguards Committee**

The Comesa Safeguards Committee comprises 12 members with representatives drawn from Kenya Sugar Board, Kenya Sugarcane Growers Association and Kenya Sugar Manufacturers Association.

The main objectives of the Committee include:

Administering and monitoring the implementation of the sugar safeguard within the provisions of the Sugar (Imports, Exports and By-Product) Regulations;

- a) Following up with the National Sugar Safeguard Committee on all the undertakings on which the extension of the safeguard is premised;

- b) Ensuring implementation of appropriate and priority Government policies and legislation relating to the sugar industry;
- c) Monitoring the implementation of the Industry Strategic Plan and facilitating implementation of strategic decisions that will lead to competitiveness;
- d) Facilitating submission of quarterly reports to the National Sugar Safeguards Committee, which shall then consolidate the country position for the COMESA Secretariat on progress achieved in the implementation of the sugar safeguard;

## BOARD MEETINGS

Meetings of the Board are guided by First schedule clause (2) of the Sugar Act 2001. The full Board and its Committees meet at least four times in a year. However, the actual number of meetings is dictated by the businesses and the urgency to dispense them. The schedule of attendance below shows the number of meetings held for thirteen months from July 2013 to July 2014.

Director	Full Board	Finance & Establishment	SDF	Risk & Audit	COMESA	CANE PRICING
1. Hon. K. arap Kirior	14	-	-	-	1	3
2. Ms. A. Gichu	5	2	4	-	-	1
3. Ms. A. Onyango	8	3	1	1	1	-
4. Mr. H. Patel	14	-	8	4	1	-
5. Mr. N. O. Oricho	14	-	8	4	-	3
6. Mr. B.W. Mukenya	14	8	1	-	1	3
7. Mr. E. Mwombe	14	8	8	-	-	3
8. Eng. M. Mukhwana	14	-	8	4	1	-
9. Hon. S. Busolo	14	8	8	-	1	3
10. Mr. J. Rai, MBS	9	-	6	-	1	1
11. Ms. Anne Mugo	11	5	5	3	1	-

### 3. Management Committees

The top management of the Board is made up of eight Heads of Department and the Chief Executive Officer. The SDF Portfolio Manager is in charge of the day to day Fund Management activities.

#### **a. Executive Committee**

The Executive Committee is chaired by the Chief Executive Officer and comprises all the eight heads of Department. This Committee has overall responsibility for day to day running of the Board, strategy implementation and monitoring and evaluation of performance. The Committee advises and assists the CEO in making decisions that define the direction of the Board.

#### **b. Management Tender Committee**

The Committee is made up of all Heads of Department except the head of internal audit with the Senior Procurement Officer serving as the Secretary to the Committee. The primary role of the Committee is to adjudicate and award tenders whose value is above the Kshs.500,000 ceiling in line with Public Procurement Guidelines.

### **4. Risk management and Internal control**

Management in consultation with the Risk and Audit Committee is responsible for the Board's day to day overall risk management and maintenance of an effective system of internal controls that minimizes potential adverse effects on its financial performance.

This is undertaken by implementation of an enterprise risk management framework which ensures a comprehensive, coordinated and systematic approach to risk management.

The Board has put in place the necessary structures and conducted trainings to all staff and directors to enhance competence in risk management. In addition the Board has strengthened the Internal Audit to enable it review the adequacy of the risk management process.

### **5. Responsibility for staff welfare training**

As part of its policy, the Board recognizes its staff as the most important assets and the need for diversity, equal opportunities, gender sensitivity, and provision of a safe and conducive work environment. The Board assists its staff to undertake continuous professional and development training programmes to fulfil their potential.

The process is appropriately managed to align staff development with Board's strategic goals and objectives.

### **6. Compliance**

The Board operates within the requirements of the Sugar Act, State Corporations Act, Exchequer and Audit Act among other legislations and adopts certain universally accepted principals within the area of labour standards in its commitment to best practice. The Board prepares its financial statements in accordance with International Public Sector Accounting Standards (IPSAS).

## **I. CORPORATE SOCIAL RESPONSIBILITY STATEMENT**

Social Responsibility is one of the core values of the Kenya Sugar Board. Management in consultation with the Board of Directors developed a Corporate Social Responsibility (CSR) Policy with the main objectives being to enhance the living standards of individuals or communities who associate with the Board or industry through execution of CSR projects.

CSR has increasingly taken an integral position in the Board. Voluntarily, KSB has given back resources, skills, time and money to the communities where they operate and areas around the sugar industry. This has helped employees to integrate into a corporate culture that is conscious of the world around it and helps them feel positive about the work that they do, with the positivity spreading to stakeholders and the community at large.

### **a. Education**

The industry has significantly contributed to education especially in the sugar belt. Currently, majority of the factories have/support primary and secondary schools in the community. These schools are attended by children from the communities around the respective sugar factories and children of staff members working in the same factories.

To compliment these efforts by the sugar factories and in recognition of the fact that education is key for the development of any community, KSB has contributed towards projects that promote education. This also serves to motivate students to strive for excellence and to provide an opportunity to strategically create awareness about KSB and build goodwill among the younger generations.

### **b. Community outreach**

Kenya Sugar Board is committed to being a responsible corporate citizen through the support for appropriate non-political and non-sectarian projects and local charities both with financial and non-financial donations. We aim at supporting the creation of prosperous, educated, sustainable and healthy communities in the environment in which we operate. With a focus on health, education, food security and the environment, we did develop target programmes for local communities, involving commercial sponsorship and significant employee engagement through direct involvement.

### **c. Health & Safety**

The Board recognizes that a healthy workforce contributes to the productivity of the organization and the industry. It therefore invests in the welfare of industry key stakeholders by supporting health programmes in sugarcane growing zones

### **d. Charitable Donations**

An amount is allocated for donations to charity and support for good causes especially with respect to food security, health and education. The amount allocated is administered and allocated on merit by the CSR Committee.

### **e. Employee participation**

Since employees play a central role in implementation of CSR Programs, the input of employees is considered by the Committee at every stage, from preliminary assessment, through strategy development and articulation of commitments.

**f. The Corporate Social Responsibility Committee**

The CSR Committee comprises representatives from every Department.

Where necessary ad-hoc working groups are constituted to implement and identify projects. These working groups comprise representatives from all cadres of the organization, to ensure participation by all members of the organization.

**g. Stakeholder Participation & communication**

The execution of CSR programs involves the target stakeholders as much as possible. The strategy is to have an inbuilt internal and external communication program to ensure that there is sustained awareness creation before, during and after the implementation of every CSR project.

**h. Evaluation and Reporting**

The evaluation of CSR Projects determines the extent to which objectives of the policy were met and the effect of the projects to the target communities.

## VI. REPORT OF THE DIRECTORS

The Directors submit their Report together with the audited Financial Statements for the period ended 31<sup>st</sup> July 2014, which disclose the state of affairs of the Fund.

### Principal activities

The principal activity of the Fund which was established in 1992 is to create a revolving fund of financing the activities of the Sugar Industry in Kenya.

### Results

The results of the Fund for the period ended 31<sup>st</sup> July 2014, are set out on pages 1 - 5.

### Directors

The members of the Board of Directors who served during the year are shown on page v and vi.

### 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 Board



Andrew Osodo

**Company Secretary**

Date:.....

## VII. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 3 of 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.

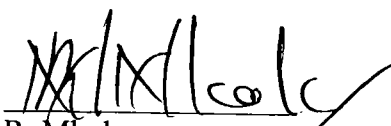
The Directors are responsible for the preparation and presentation of the Fund's financial statements, which give a true and fair view of the state of affairs of the Fund for and as at the end of the financial period ended 31<sup>st</sup> July 2014. This responsibility includes: (i) maintaining adequate 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 period ended 31<sup>st</sup> July 2014, 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.

It has come to the attention of the directors that the Kenya Sugar Board, under which Sugar Development Fund operates, will cease to exist as from 1st August 2014, due to the gazettelement of the Crops Act, 2013. The former Kenya Sugar Board will be succeeded by AFFA (Agriculture Fisheries and Food Authority) which will take over all the assets and liabilities of the former institution, including the Fund. Based on this, the financial statements have been prepared for a period of thirteen months ending 31st July, 2014.

### Approval of the financial statements

The Fund's financial statements were approved by the Board on \_\_\_\_\_ 2014 and signed on its behalf by:

  
R. Mkok  
**Chief Executive Officer**

  
A. Onyango  
**Alternate Director**

# REPUBLIC OF KENYA

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P.O. Box 30084-00100  
NAIROBI

## KENYA NATIONAL AUDIT OFFICE

### **REPORT OF THE AUDITOR-GENERAL ON SUGAR DEVELOPMENT FUND FOR THE THIRTEEN MONTHS PERIOD ENDED 31 JULY 2014**

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#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Sugar Development Fund set out on pages 1 to 18, which comprise the statement of financial position as at 31 July 2014, and the statement of financial performance, statement of changes in net assets and statement of cash flows for the period 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 14 of the Public Audit Act, 2003. 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.

#### **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 the 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 13 of the Public Audit Act, 2003.

#### **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 15(2) of the Public Audit Act, 2003. The audit was conducted in accordance with International Standards of Auditing (ISA). 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 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.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

### **Basis for Qualified Opinion**

#### **1. Loans to Companies**

As previously reported, the statement of financial position as at 31 July 2014 reflects under Note 11, loans to companies amounting to Kshs.13,072,826,000. The figure however includes non-performing loans totalling Kshs.5,565,961,068 granted to various companies and with an accrued interest of Kshs.1,364,602,370 as at 31 July 2014, some of which are under receivership. Although the management has made a provision of Kshs.3,175,638,000 for loans and a further Kshs.1,212,766,000 for the accrued interest in the financial statements, the provision appears to be inadequate considering the low rate of recovery of the loans. Further, although the management had previously indicated that it had communicated with the parent Ministry over possible inclusion of the Fund's loan repayment as a specific performance contract target, no meaningful progress has however been recorded in the recovery of loans as at 31 July, 2014.

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

As previously reported, the receivables from non-exchange transactions balance of Kshs.1,837,694,000 as at 31 July 2014 relates to levy arrears from fifteen institutions which according to available records has been outstanding for a considerably long time. Though the management has made a specific provision of Kshs.126,417,000 in the financial statements, the provision appears inadequate for these debts whose recoverability remains doubtful. In addition, no evidence has been produced for audit verification on the measures being taken by management to address the problem.

#### **3. Receivables from Exchange Transactions**

Similarly and as reported in the previous year, receivables from exchange activities figure of Kshs.148,166,000 as disclosed under note 10 to the accounts comprises of Kshs.146,717,000 relating to expenses incurred by the Fund on behalf of various Institutions some of which are under receivership, Kshs 100,000 in respect of prepayments and deposits and Kshs.1,349,000 in respect of imprests from former employees. Although the management has made full provision for bad and doubtful debts for these balances whose recovery remains doubtful, no evidence has been provided for verification on the actions being taken to recover the debts.

#### **4. Investments - Short Term Deposits**

The investments figure of Kshs.4,053,033,000 as at 31 July 2014 as disclosed under note 13 to the accounts includes Kshs.52,237,000 in respect of investments placed in Euro Bank and Eco Bank which were placed under receivership in the 1990s. Although the management has made a provision of Kshs.52,237,000 in respect of the investments in Euro and Eco banks, no explanation was given by management on the progress being made to recover these investments in spite of the recommendations by the Public Accounts Committee in its deliberations for the 2001/2002 accounts.

#### **5. Trade and Other Payables from Exchange Transactions**

Included in trade and other payables balance of kshs.252,050,000 as disclosed under note 15 to the accounts are Kshs.5,000,000 and Kshs.3,062,000 in respect of Boco-Tractor lease deposit and Fintech Kenya respectively which have been outstanding for a considerably long period. Although the management has explained that the Boco Tractor amount of Kshs.5,000,000 relates to an amount held as security deposited by a third party contract under a fleet management for tractors on loan from SDF and that the amount is withheld in-trust for BOCO following a legal case between them and the contracted transporters, no evidence has been produced on when the case will be dispensed with. In the circumstances, it is not possible to confirm whether trade and other payables balance of Kshs.252,050,000 as at 31 July 2014 is fairly stated.

#### **Qualified Opinion**

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Fund as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards and comply with the Sugar Act, 2001.

#### **Emphasis of Matter**

#### **Going Concern**

With the operationalization of the Agriculture, Fisheries and Food Act and the Crops Act of 2013 on 1 August 2014, the Fund has ceased to exist as a legal entity and it now operates as a Directorate under the Agriculture, Fisheries and Food Authority (AFFA). My opinion is not qualified in respect of this matter.



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

**Nairobi**

**15 April 2015**

## VIII. STATEMENT OF FINANCIAL PERFORMANCE

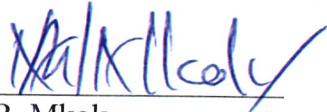
### For Thirteen Months ended 31st July 2014

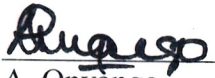
	Note	2013-2014	2012-2013
		Kshs-'000'	Kshs-'000'
<b>Revenue from non-exchange transactions</b>			
Fines, penalties and levies	3	1,858,175	1,725,303
Licenses, permits and other Incomes		2,142	8,314
		<b>1,860,317</b>	<b>1,733,617</b>
<b>Revenue from exchange transactions</b>			
Finance income - external investments	4	716,716	822,559
		<b>716,716</b>	<b>822,559</b>
<b>Total revenue</b>		<b>2,577,033</b>	<b>2,556,175</b>
<b>Expenses</b>			
Employee costs( Factory & Outgrower Supervision)		51,150	35,740
Depreciation and amortization expense	5	190	200
Grants and subsidies	6	1,022,523	1,033,277
Finance costs & Provisions	7	176,103	116,715
Collection cost-KRA		34,014	32,338
Audit Fees		1,508	1,200
<b>Total expenses</b>		<b>1,285,488</b>	<b>1,219,470</b>
<b>Surplus before Indirect Appropriations</b>		<b>1,291,545</b>	<b>1,336,705</b>
<b>Indirect Appropriations</b>			
Prescribed Reserves (15% of Levy)	8	278,726	258,795
Factory Rehabilitation = $0.71/4*0.85*levy$		280,352	260,305
Cane Development = $0.66/4*0.85*levy$		260,609	241,974
Roads Grants= $0.29/4*0.85*levy$		114,510	106,322
		<b>934,197</b>	<b>867,396</b>
<b>Surplus for the period</b>		<b>357,348</b>	<b>469,309</b>
<b>APPROPRIATION OF SURPLUS TO REVOLVING ACCOUNT</b>			
Prescribed Reserves (15% )		53,602	70,396
Factory Rehabilitation = $41%*0.85$		124,536	163,554
Cane Development = $38.5%*0.85$		116,942	153,582
Roads Grants= $20.5%*0.85$		62,268	81,777
		<b>357,348</b>	<b>469,309</b>
The notes set out on pages 6 to 18 form an integral part of the Financial Statements			

**IX. STATEMENT OF FINANCIAL POSITION**  
**As at 31<sup>st</sup> July 2014**

<b>Assets</b>	<b>Note</b>	<b>2013-2014 Kshs-'000'</b>	<b>2012-2013 Kshs-'000'</b>
<b>Current assets</b>			
Cash and cash equivalents	9	49,623	59,241
Receivables from exchange transactions-Debtors & Prepayments	10	148,166	146,953
Receivables from non-exchange transactions-Levy Arrears	12	1,837,694	1,653,741
Current portion of long-term receivables from exchange transactions-Interest on Loans	11	2,125,719	1,940,275
Inter-Company Account		-	69,525
Investments-Short Term Deposits	13	4,053,033	6,471,845
		<b>8,214,235</b>	<b>10,341,580</b>
<b>Non-current assets</b>			
Property, plant and equipment	14	3,440	4,405
Term Loan to KSB for HQs		54,136	61,311
Long term receivables from exchange transactions-Loans to Companies	11	13,072,826	9,722,436
		<b>13,130,402</b>	<b>9,788,152</b>
<b>Total assets</b>		<b>21,344,638</b>	<b>20,129,732</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables from exchange transactions	15	252,050	293,557
Provisions	16	4,715,224	2,455,864
		<b>4,967,274</b>	<b>2,749,420</b>
<b>Non-current liabilities</b>		-	-
<b>Total liabilities</b>		<b>4,967,274</b>	<b>2,749,420</b>
<b>Net assets</b>		<b>16,377,364</b>	<b>17,380,312</b>
Accumulated Reserves		9,844,271	11,253,908
Prescribed Reserves		3,096,507	2,817,781
Factory Rehabilitation Reserve		1,494,758	1,214,405
Cane Development Reserve		1,389,493	1,128,884
Roads Grants Reserve		194,987	496,025
Surplus / (Deficit ) for the Period		357,348	469,309
		<b>16,377,364</b>	<b>17,380,312</b>
<b>Total net assets and liabilities</b>		<b>16,377,364</b>	<b>17,380,312</b>

The Financial Statements set out on pages 1 to 5 were signed on behalf of the Board of Directors by:

  
R. Mkok  
**Chief Executive Officer**  
Date.....

  
A. Onyango  
**Alternate Director**  
Date.....

**XIII. STATEMENT OF CHANGES IN NET ASSETS**  
**For Thirteen Months Ended 31<sup>st</sup> July 2014**

Attributable to the owners of the controlling Fund							
	Accumulated Reserves	Prescribed Reserves	Factory Rehab Reserves	Cane Dev Reserves	Roads Grants Reserves	Revenue Reserves	Total
	Kshs '000	Kshs '000	Kshs '000	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'
<b>Balance as at 30 JUNE 2012</b>	<b>10,630,642</b>	<b>2,558,986</b>	<b>954,100</b>	<b>886,910</b>	<b>389,703</b>	<b>623,266</b>	<b>16,043,607</b>
Surplus/(deficit) for the period	-	258,795	260,305	241,974	106,322	469,309	1,336,705
Transfers to/from accumulated surplus	623,266					(623,266)	-
<b>Balance as at 30 JUNE 2013</b>	<b>11,253,908</b>	<b>2,817,781</b>	<b>1,214,405</b>	<b>1,128,884</b>	<b>496,025</b>	<b>469,309</b>	<b>17,380,312</b>
Prior Year Adjustments	<b>(1,878,946)</b>				<b>(415,547)</b>		<b>(2,294,493)</b>
Surplus for the period	-	278,726	280,352	260,609	114,510	357,348	1,291,545
Transfers to/from accumulated surplus	469,309					(469,309)	-
<b>Balance as at 31 JULY 2014</b>	<b>9,844,271</b>	<b>3,096,507</b>	<b>1,494,758</b>	<b>1,389,493</b>	<b>194,987</b>	<b>357,348</b>	<b>16,377,364</b>

**XIV. STATEMENT OF CASH FLOWS**  
**For Thirteen Months Ended 31<sup>st</sup> July 2014**

	<b>31.07.14</b>	<b>30.06.13</b>
	<b>KSHS'000'</b>	<b>KSHS'000'</b>
<b>NET CASH FROM/(USED IN) OPERATING ACTIVITIES</b>	<b>227,918</b>	<b>553,907</b>
<b>INVESTING ACTIVITIES</b>		
Purchase/Realization of Securities	2,418,812	(861,089)
Loans to Companies	(3,350,390)	(584,807)
Infrastructure Grants to Companies	(284,886)	(134,108)
Loans to KSB ( Building & Intercompany)	76,700	82,540
Other Grants (Sugar Arbitration Tribunal)	(31,969)	(41,262)
<b>Net cash used in Investing activities</b>	<b>(1,171,733)</b>	<b>(1,538,726)</b>
<b>FINANCING ACTIVITIES</b>		
Factory rehabilitation	280,352	260,305
Cane Development	260,609	241,974
Roads Grants	114,510	106,324
Prescribed Reserves	278,726	258,795
<b>Net Cash flows from Financing Activities</b>	<b>934,197</b>	<b>867,398</b>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(9,618)</b>	<b>(117,421)</b>
<b>CASH AND CASH EQUIVALENTS B/F</b>	<b>59,241</b>	<b>176,662</b>
<b>CASH AND CASH EQUIVALENTS C/F</b>	<b>49,623</b>	<b>59,241</b>
<b>RECONCILIATION OF CASH FROM/(USED IN) OPERATING ACTIVITIES BEFORE TAX</b>		
Operating Surplus	357,348	469,309
Add back Depreciation for the period	190	200
Add back Capital Grants (Note 6)	98,545	175,370
Changes in Working capital:		
Decrease/((Increase) in Debtors	(1,214)	(106,642)
Decrease/((Increase) in Loan interest	(185,444)	(6,962)
(Decrease)/Increase in Creditors	(41,507)	22,632
	<b>227,918</b>	<b>553,907</b>

**XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS****For Thirteen Months Ended 31<sup>st</sup> July 2014**

	Note	Original	Adjusted	Actual	Budget Variance
		Budget	Budget	Period Ended	
		30.06.2014	31.07.2014	31.07.2014	
		KSHS'000'	KSHS'000'	KSHS'000'	KSHS'000'
<b>INCOME</b>					
Levy Income	17	1,927,629	2,096,885	1,858,175	(238,710)
<b>Other Income</b>					
Interest income on Fixed Deposits		315,000	345,750	488,811	143,061
Interest income on Loans to Companies		243,578	264,797	227,905	(36,892)
Miscellaneous income		400	433	2,142	1,709
<b>Total Income</b>		<b>2,486,607</b>	<b>2,707,865</b>	<b>2,577,033</b>	<b>(130,832)</b>
<b>DIRECT APPROPRIATIONS &amp; COSTS</b>					
Grants to KSB & Research		958,513	1,039,676	923,978	115,698
Agency fees -Levy Collection(KRA)		48,191	52,422	34,014	18,408
Agency Charges - Direct Lending		45,500	49,292	0	49,292
Factory & Outgrower Supervision		44,956	52,036	51,150	886
Audit Fees		1,200	1,317	1,508,000	(191)
Depreciation		184	197	190	7
<b>TOTAL DIRECT EXPENSES</b>	18	<b>1,098,544</b>	<b>1,194,940</b>	<b>1,010,839</b>	<b>184,101</b>
<b>FINANCE &amp; OTHER COSTS</b>					
Finance Costs		450	471	747	(276)
Provision for Bad & Doubtful Debts		157,896	175,357	175,357	0
Capital Grants		211,262	222,152	98,545	123,607
<b>TOTAL FINANCE &amp; OTHER COSTS</b>	19	<b>369,608</b>	<b>397,980</b>	<b>274,648</b>	<b>123,331</b>
<b>SURPLUS /(DEFICIT) BEFORE INDIRECT APPROPRIATIONS</b>					
Prescribed Reserves (15% of Levy)		289,144	314,533	278,726	35,807
Factory Rehabilitation =0.71/4*0.85*levy		290,831	316,368	280,352	36,015
Cane Development =0.66/4*0.85*levy		270,350	294,088	260,609	33,479
Roads Grants=0.29/4*0.85*levy		118,790	129,221	114,510	14,711
		<b>969,115</b>	<b>1,054,209</b>	<b>934,197</b>	<b>120,012</b>
<b>NET BALANCE TO REVOLVING ACCOUNT</b>		<b>49,339</b>	<b>60,736</b>	<b>357,348</b>	<b>296,612</b>

## XVI. 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), this being the first time adoption of the standards. The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Fund and all values are rounded to the nearest thousand (Ksh000). The accounting policies have been consistently applied to all the years presented.

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

### 2. Summary of significant accounting policies

#### a) Revenue recognition

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

##### **Sugar Development Levy, licenses and permits**

The Fund recognizes revenues from sugar development levy, licenses and permits, when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the Fund and the fair value of the asset can be measured reliably.

##### ii) Revenue from exchange transactions

##### *Interest income*

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

#### b) Budget information

As a result of the adoption of the accrual basis for budgeting purposes, there are no significant bases, timing or Fund differences that would require reconciliation between the actual comparable amounts and the amounts presented for comparison of budget and actual amounts. However, as result of the enactment of AFFA act 2013, Sugar Development Fund ceased to exist on 31<sup>st</sup> July 2014. This has necessitated preparation of accounts of the same to cover thirteen (13) months, from 1<sup>st</sup> July 2013 to 31<sup>st</sup> July 2014. For comparability purposes, the figures for actual and budget for the budget period 2013/14, twelve (12) months have been used.

**c) Taxes*****Current income tax***

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

Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate. The fund is exempt from corporate tax.

**e) 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 Fund 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.

**h) Financial instruments*****Financial assets******Initial recognition and measurement***

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 Fund 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.

***Held-to-maturity***

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Fund has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are 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. The losses arising from impairment are recognized in surplus or deficit.

***Impairment of financial assets***

The Fund assesses at each reporting date whether there is objective evidence that a financial asset or a Fund of financial assets is impaired. A financial asset or a Fund of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the Fund of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or a Fund of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

***i) Financial liabilities******Initial recognition and measurement***

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

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

***j) Provisions***

Provisions are recognized when the Fund 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. Both General (1%) and specific provisions are made on outstanding loans (principle and interest) and made and expensed annually.

***Contingent liabilities***

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

***Contingent assets***

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

**k) Nature and purpose of reserves**

The Fund creates and maintains reserves in terms of specific requirements. Fund to state the reserves maintained and appropriate policies adopted. The reserves are as a result of appropriations of the levy less expenses against the respective reserves.

**l) 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.

**p) Related parties**

The Fund regards a related party as a person or a Fund with the ability to exert control individually or jointly, or to exercise significant influence over the Fund, or vice versa. Members of key management are regarded as related parties and comprise the SDF management Board. Balances owed to SDF by KSB and vice versa are disclosed in the accounts on notes 6 and 15.

**q) Service concession arrangements**

The Fund analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Fund recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Fund also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

**r) 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 the Central Bank of Kenya and at various commercial banks at the end of the financial year

**s) Comparative figures**

Where necessary comparative figures for the previous financial year are amended or reconfigured to conform to the required changes in presentation.

### t) Significant judgments and sources of estimation uncertainty

The preparation of the Fund's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

#### *Estimates and assumptions*

In the year, the Fund based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Fund. Such changes are reflected in the assumptions when they occur.

#### *Useful lives and residual values*

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Fund
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

#### *Provisions*

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 16.

### u) Subsequent events

There have been events subsequent to the financial year end with a significant impact on the financial statements for the period ended July 31, 2014. The Agriculture, Fisheries and Food Authority Act, 2013 was gazetted on 1<sup>st</sup> August 2014 thereby dissolving Kenya Sugar Board and having all its assets and liabilities assumed by the new Authority, Agriculture, Fisheries and Food Authority.

3. Fines, Penalties And Levies	July-2014	June-2013
	Shs '000'	Shs '000'
Local Levy	117,874	265,379
Imports levy	1,740,301	1,459,924
<b>Total</b>	<b>1,858,175</b>	<b>1,725,303</b>

<b>4. Finance Income - External Investments</b>		
	<b>July-2014</b>	<b>June-2013</b>
	<b>Shs '000'</b>	<b>Shs '000'</b>
Interest on fixed deposits	488,812	637,046
Interest on Loans	227,905	185,513
<b>Total Finance Income – External Investments</b>	<b>716,716</b>	<b>822,559</b>

<b>5. Depreciation Expense</b>	<b>July-2014</b>	<b>June-2013</b>
	<b>Shs '000'</b>	<b>Shs '000'</b>
Buildings	79	73
Office Equipment	24	27
Office Furniture	87	100
<b>Total Depreciation And Amortization</b>	<b>190</b>	<b>200</b>

<b>6. Grants And Subsidies</b>		
	<b>July-2014</b>	<b>June-2013</b>
	<b>Shs '000'</b>	<b>Shs '000'</b>
Grants to Kenya Sugar Board	552,807	513,278
Grants to Kenya Sugar Research Foundation	371,170	344,629
Capital Grants	98,545	175,370
<b>Total Grants And Subsidies</b>	<b>1,022,523</b>	<b>1,033,277</b>

<b>7. Finance Costs and Provisions</b>	<b>July-2014</b>	<b>June-2013</b>
	<b>Shs 000</b>	<b>Shs 000</b>
Provision for Bad & Doubtful Debts-General	175,357	116,627
Bank Charges	747	88
<b>Total Finance Costs and Provisions</b>	<b>176,103</b>	<b>116,715</b>

<b>8. Appropriations</b>	
The fund utilisation per component is as below:	
Prescribed reserves	15% of gross Levy Indirect
<b>Sharing of the remaining 85% of the levy:</b>	
Kenya Sugar Board	1.4/4-Direct
Kenya Sugar Research Foundation	0.94/4-Direct
Roads and Infrastructure	0.29/4-Indirect
Cane Development	0.66/4-Indirect
Factory Rehabilitation	0.71/4-Indirect

**9. Cash and cash equivalents**

	<b>July-2014</b>	<b>June-2013</b>
<b>BANKING INSTITUTION</b>	<b>Shs '000'</b>	<b>Shs' 000'</b>
Std Chartered Westlands	40,462	39,455
Cooperative Bank, Coop. Hse.	3,922	595
Barclays Bank Westlands	341	19,191
National Bank, Hill	4,655	0
NIC Bank	243	0
<b>Total Cash and Cash Equivalents</b>	<b>49,622</b>	<b>59,241</b>

**10. Receivables from Exchange Transactions**

<b>DEBTORS</b>	<b>July-2014</b>	<b>June-2013</b>
	<b>Shs '000'</b>	<b>Shs '000'</b>
Nzoia Sugar Co. 1996 OOC Tech. Committee Exps.	844	844
Nzoia Sugar Co Inter - Ministerial Committee	1,487	1,487
<b>Kenya Sugar Industry Party:</b>		
- Nzoia Sugar Company	157	157
- West Kenya Sugar Company	157	157
Kenya Sugar Marketing	34	34
Miwani Sugar Company (In Receivership)	160	160
Nzoia Outgrowers Company	52	52
Receivership Costs - Muhoroni(Receiver's fees)	6,676	6,676
- Miwani(KPMG)	1,180	1,180
Coveka Outgrowers Company	1,939	1,939
Busia Sugar Co ( Inter - Ministerial )	667	667
South Nyanza Sugar Co	2,217	2,217
Other Debtors ( Sugar Industry Ploughing Contr )	50	50
Staff Debts & Others	1,349	1,339
Sugar Reforms Support Project	-	-
Prepayments & Deposits	100	100
West Kenya Outgrowers	-	-
South Nyanza Outgrowers	200	200
Sugar Import (Trumps Freighters)	19,000	19,000
Mumias Sugar Company	392	392
Chemelil Sugar Company	843	843
Muhoroni Sugar Company (In Receivership)	8,897	8,897
Nzoia Sugar Co. (GM Vacancy )	421	421
SDL rebate on 2003/04 sugar exports	28,463	28,463
VAT Refunds on Export sugar (Mumias 2003/4)	66,263	66,263
Nzoia Sugar Co ( Reimbursement )	5,416	5,416
Odambo International ltd (advance for bridge construction)	1,204	0
	<b>148,166</b>	<b>146,953</b>

## 11. Loans to Companies

INSTITUTION	Principal (Non-Current) 31.07.14	Interest (Current) 31.07.14	Total 31.07.14	Principal (Non-Current) 30.06.13	Interest (Current) 30.06.13	Total 30.06.13
	KSHS'000'	KSHS'000'	KSHS'000'	KSHS'000'	KSHS'000'	KSHS'000'
Chemelil Sugar Company	2,062,821	421,670	2,484,491	1,776,773	325,761	2,102,535
Muhoroni Sugar Company (In Receivership)	1,919,645	465,741	2,385,387	1,628,253	431,291	2,059,544
Muhoroni Outgrowers Company	305,412	66,589	372,001	298,558	59,361	357,920
Mumias Outgrowers	212,793	46,051	258,844	212,793	37,016	249,809
Nzoia Sugar Company	1,838,129	238,484	2,076,613	822,846	219,279	1,042,125
Nzoia Outgrowers Company	371,915	40,130	412,046	377,000	66,013	443,013
South Nyanza Sugar Company	295,273	6,510	301,784	248,686	10,897	259,583
South Nyanza Outgrowers Company (In Receivership)	375,449	103,636	479,085	375,449	102,692	478,141
West Kenya Sugar Company	570,865	39,397	610,262	110,590	34,654	145,244
Busia Sugar Company (In Receivership)	301,605	82,054	383,659	301,605	82,054	383,659
Miwani Sugar Company (In Receivership)	1,194,658	340,305	1,534,964	1,199,658	352,189	1,551,847
Mumias Sugar Company	664,066	22,635	686,701	75,695	114	75,809
Government Of Kenya Guaranteed Loans	262,817	65,740	328,557	262,817	65,740	328,557
Chemelil Outgrowers	185,237	66,716	251,953	185,535	58,882	244,418
Soim Outgrowers	144,583	24,607	169,190	144,583	23,697	168,280
Busia Outgrowers	95,079	12,918	107,996	96,212	11,355	107,567
West Kenya Outgrowers	82,493	8,506	90,999	82,493	5,906	88,399
Nandi Escp Outgrowers	115,183	28,710	143,893	115,183	29,664	144,847
Miwani Outgrowers	11,112	3,057	14,169	11,112	3,057	14,169
Lubao Jaggery	31,649	791	32,439	829	-	829
Agricultural Finance Corporation	1,163,976	0	1,163,976	945,517	-	945,517
Muhoroni Multipurpose Co-Op Union	64,579	7,797	72,376	34,836	5,359	40,195
Kisumu Sugarbelt Co-Op Union	98,868	19,629	118,497	98,869	14,952	113,821
Receivership Costs - Muhoroni	172,275	0	172,275	172,275	-	172,275
Receivership Costs - Miwani	13,671	0	13,671	13,671	-	13,671
Transmara Sugar Company	187,491	7,915	195,406	130,599	340	130,939
Butali Sugar Mills Ltd	114,960	4,119	119,079	-	-	-
Sukari Industries	82,251	1,334	83,585	-	-	-
Kibos Sugar	133,972	675	134,648	-	-	-
<b>TOTAL</b>	<b>13,072,826</b>	<b>2,125,719</b>	<b>15,198,545</b>	<b>9,722,436</b>	<b>1,940,275</b>	<b>11,662,712</b>

**12. Receivables from non-exchange contracts –Levy Arrears**

	<b>31.07.14</b>	<b>30.06.13</b>
<b>INSTITUTION</b>	<b>KSHS</b>	<b>KSHS</b>
Sundry Importers	25,171	64,198
South Nyanza Sugar Company	306,033	277,608
Miwani Sugar Company (In Receivership)	121,058	121,058
Mumias Sugar Company	127,602	90,417
West Kenya Sugar Company	32,205	41,850
Nzoia Sugar Company	492,035	445,027
Muhoroni Sugar Company (In Receivership)	321,545	274,855
Chemelil Sugar Company	345,593	273,979
Kibos Sugar & Allied Industries	12,161	20,832
Soin Sugar Company	6,344	6,944
Butali Sugar Company	15,292	4,823
Transmara Sugar Company	16,889	11,849
Sukari Industries Ltd	9,359	13,769
Jaggeries	1,050	1,174
Kenya National Trading Corporation	5,359	5,359
<b>TOTAL</b>	<b>1,837,694</b>	<b>1,653,741</b>

**13. Investments- Short Term Deposits**

<b>BANK/FINANCIAL INSTITUTION</b>	<b>31.07.14 SHS-'000'</b>	<b>30.06.13 SHS-'000'</b>
NBK Hill Branch	-	2,532,948
Co-operative Bank	425,840	3,017,320
Euro Bank	52,237	52,237
CFC Stanbic Bank	-	-
Kenya Commercial Bank	1,223,460	-
Barclays Bank	-	536,218
NIC Bank	2,346,496	328,121
ECO Bank Kenya Ltd (BOCO Deposit)	5,000	5,000
<b>TOTAL</b>	<b>4,053,033</b>	<b>6,471,845</b>

**14. Property, Plant and Equipment**

	Buildings & Freehold land Kshs'000	Motor Vehicles Kshs'000	Office Equipment Kshs'000	Computers Kshs'000	Office Furniture Kshs'000	Total Kshs'000
<b>Cost</b>						
<b>As at 01/07/12</b>	<b>4,731</b>	<b>-</b>	<b>1,663</b>	<b>6,347</b>	<b>3,935</b>	<b>16,675</b>
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
<b>As at 30/06/13</b>	<b>4,731</b>	<b>-</b>	<b>1,663</b>	<b>6,347</b>	<b>3,935</b>	<b>16,675</b>
Additions	-	-	-	-	-	-
Disposals	-	-	(1,663)	(6,347)	(3,935)	(11,944)
<b>As at 31/07/14</b>	<b>4,731</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,731</b>
<b>Depreciation &amp; Impairment</b>						
<b>As at 30/06/12</b>	<b>1,139</b>	<b>-</b>	<b>1,448</b>	<b>6,347</b>	<b>3,138</b>	<b>12,070</b>
Charge	73	-	27	-	100	200
Disposals	-	-	-	-	-	-
<b>As at 30/06/13</b>	<b>1,212</b>	<b>-</b>	<b>1,474</b>	<b>6,347</b>	<b>3,238</b>	<b>12,270</b>
Charge	79	-	23	-	87	190
Disposals	-	-	(1,498)	(6,347)	(3,325)	(11,169)
<b>As at 31/07/14</b>	<b>1,292</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,292</b>
<b>Net book Values</b>						
<b>As at 31/07/14</b>	<b>3,440</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,440</b>
<b>Net Book Value As at 30/06/13</b>	<b>3,519</b>	<b>-</b>	<b>188</b>	<b>-</b>	<b>698</b>	<b>4,405</b>

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

NAME/DESCRIPTION	July-2014	June-2013
	KSHS'000'	KSHS'000'
Sugar Research Levy	226,319	182,780
Audit Fees	1,272	1,040
Cane Unit	0	37,468
BOCO - Tractor Lease Deposit	5,000	5,000
Fintech Kenya	3,062	3,062
Kenana Engineering	0	60,958
SBO Reasearch	0	1,200
Infocom Media & Public relations	0	2,048
Inter- Company Account	16,397	0
<b>TOTAL</b>	<b>252,050</b>	<b>293,557</b>

## 16. Provisions

	31.07.14	31.07.14	31.07.14	30.06.13
	Shs 000	Shs 000	Shs 000	Shs 000
<b>Loans to Companies</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>	<b>TOTAL</b>	<b>TOTAL</b>
<b>General Provisions</b>				
Balance at the beginning of the year	1,619,676	872,460	2,492,137	2,170,452
Additional provisions raised	175,357	-	175,357	116,627
<b>Sub-Total</b>	<b>1,795,033</b>	<b>872,460</b>	<b>2,667,493</b>	<b>2,287,079</b>
<b>Debtors</b>				
Balance at the beginning of the year	-	-	116,547	116,547
Additional provisions raised to cover entire Doubtful Debts	-	-	31,620	-
<b>Sub-Total</b>	<b>-</b>	<b>-</b>	<b>148,166</b>	<b>116,547</b>
<b>Short Term Deposits</b>				
Balance at the beginning of the year	-	-	52,237	52,237
Additional provisions raised	-	-	-	-
<b>Sub-Total</b>	<b>-</b>	<b>-</b>	<b>52,237</b>	<b>52,237</b>
<b>SPECIFIC PROVISIONS</b>				
<b>a) Loans to Companies</b>				
Miwani Sugar	1,194,658	340,306	1,534,964	-
Miwani Sugar-Receivership Costs	13,671	-	13,671	-
Receivership Costs - Muhoroni	172,275	-	172,275	-
<b>Sub-Total</b>	<b>1,380,605</b>	<b>340,306</b>	<b>1,720,910</b>	<b>-</b>
<b>b) Levy Arrears</b>				
Kenya National Trading Corporation	-	-	5,359	-
Miwani Sugar Company (In Receivership)	-	-	121,058	-
<b>Sub-Total</b>	<b>-</b>	<b>-</b>	<b>126,417</b>	<b>-</b>
<b>Total Provisions as at 31st July 2014</b>	<b>3,175,638</b>	<b>1,212,766</b>	<b>4,715,224</b>	<b>2,455,864</b>

**XVII. BUDGET VARIANCE EXPLANATORY NOTES****17. Levy income – Kshs 1.858B**

Sugar Development Levy income was Kshs.1.858B compared to a budget of Kshs.2.097B. The performance was 11% below the budget. The below budget performance was as a result of a 24% drop in sugar selling price during the year as compared to the previous year (the budgetary benchmark), as shown in Table 1 below. The declared imported table sugar equally dropped by 42%, thus negatively affecting the performance. This was due to cheap imported sugar flooding the local market, declining international sugar prices (11% drop) and incidences of unaccustomed/smuggled sugar finding its way into the market as may be apparent from the significant decline in declared table sugar imports illustrated in table 1 below.

Table 1

	<b>Parameter</b>	<b>2013/14</b>	<b>2012/13</b>	<b>Variance</b>	<b>%age change</b>
1	Sugar production (Tons)	654,209	475,743	178,466	38
2	Sugar sales (Tons)	655,456	460,152	195,304	42
3	Table sugar imports (Tons)	50,970	88,213	(37,243)	(42)
4	CIF value of imports/Ton (Kshs)	57,112	64,352	(7,240)	(11)
5	Ex-factory sugar prices (Kshs /T)	75,420	99,500	(24,080)	(24)

**18. Direct Expenses – Kshs 1.01B**

The direct expenses which include levy share to KSB, KESREF, and Agency fee paid to Kenya Revenue Authority (KRA) Loans Management costs, audit fees and Depreciation was Kshs. 1.01B against a budget of Kshs. 1.19B. The favourable variance was caused by the reduced levy income which in turn resulted to less share of levy due to KSB and KESREF by 11%.


**19. Other Costs - Kshs. 274.65M**

Other costs of the Fund which include Bank charges, Capital Grants and Provision for Bad Debts which amounted to Kshs. 274.65M compared favourably with a budget of Kshs. 397.98M. The 31% below budget expenditure is mainly attributable to non-implementation of some capital projects budgeted for under capital grants which included construction of an office block in Kisumu.

### VIII. 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.	<p><b>NON PERFORMING LOANS</b></p> <p>The Statement of financial position as at 30 June 2013 reflects under Note 12, loans to companies amounting to Kshs.9, 722,436,000. The figure includes non-performing loans totalling Kshs.5,050,130,353 granted to various companies, and with an accrued interest of Kshs.1,192,027,612 as at 30 June 2013, some of which are under provision of Kshs.1,619,776,000 for the loans and further amount of Kshs.667,304 for accrued interest. The provision appears to be inadequate considering the low rate of recovery of the loans. Further, although the management had previously indicated that it had communicated with the parent Ministry over possible inclusion of the Fund's loan repayment as a specific performance contract target, no meaningful progress has, however, been recorded of the non-performing loans as at 30 June, 2013.</p>	<p>The debt collector option was declined by the Board. However a sessional paper was prepared aimed at alleviating this historical debt burden culminating in a Parliamentary approval of a write off early this year. Formal communication on this is still awaited from Treasury though the approval is on record in the Hansard. However, additional provisions have been made in the period ended 31<sup>st</sup> July 2014, which the management deems adequate.</p>	Interim MT, Commodities Fund/ Interim Head, Legal Affairs	<i>Not Resolved- (Additional provisions made)</i>	June 2015
2.	<p><b>TRADE AND OTHER RECEIVABLES</b></p> <p>As similarly reported in the previous year, the trade and other receivables balance of Kshs.1,684,147,000 as at 30 June 2013, includes an amount of Kshs.1,653,741,000 representing Sugar Development Levy Arrears due from some fifteen institutions. Although according to records available, the arrears have been outstanding for a considerably long period of time, no concrete measures appear to have been taken by the management to address the problem.</p> <p>Further, included in the trade and other receivables figure of Kshs.1,684,147,000 are sundry debts of Kshs.146,953,000 comprised of Kshs.145,614,000 relating to expenses incurred by the Fund on behalf of various institutions some of which are under receivership, and Kshs.1,339,000 in respect to imprests outstanding from former employees. Although a provision for bad and doubtful debts of Kshs.116, 547,000 has been made in the financial statements, the recovery of the entire debt of Kshs.146, 953,000 appears doubtful.</p> <p>In the circumstances, it has not been possible to confirm the full recoverability of the trade and other receivables balance of kshs.1, 684,147,000 as at 30 June 2013.</p>	<p>Management wishes to acknowledge your observation on the Trade and other Receivables that have been outstanding for long.</p> <p>Among the efforts being made to help recover these debts is negotiations with the debtors especially on the levy arrears on agreeable repayment schedules. Also, Management will undertake a detailed analysis of each debtor's case and present to the Board the cases that will be considered for write off.</p> <p>Finally, it is expected that most of these debts will be written off as per the pending cabinet memorandum of 2008 on revitalization of the sugar industry.</p> <p><b>Current status</b></p> <p>A sessional paper was prepared aimed at alleviating this historical debt which includes the levy arrears burden culminating in a Parliamentary approval of a write off early this year. Formal communication on this is still awaited from Treasury though the approval is on record in the Hansard. (Sessional paper No. 12 of 2012)</p> <p>Debts owed by former staff Mr. Kegode Ksh.1,139,056, and Amulyoto Mr.Ksh.200,000 are yet to be settled. The recovery of the same is being pursued through court.</p>	Interim MT, Commodities Fund/ Interim Head, Legal Affairs	<i>Not Resolved</i>	June 2015

  
**R. Mkok**  
 Chief Executive Officer

  
**A. Onyango**  
 Alternate Director