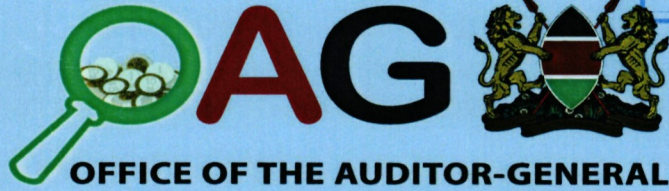


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REPORT

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THE AUDITOR-GENERAL

THE TABLE:

Mr. Wanjiku Mw

ON

**NATIONAL CEREALS AND
PRODUCE BOARD**

**FOR THE YEAR ENDED
30 JUNE, 2020**



NATIONAL CEREALS AND PRODUCE BOARD

Leaders in Grain Management

OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
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ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2020

Prepared in accordance with the Accrual Basis of Accounting Method under the International Financial Reporting Standards (IFRS)

NATIONAL CEREALS AND PRODUCE BOARD
 ANNUAL REPORT AND FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30TH JUNE 2020

	PAGE
Table of Contents	
I. CORPORATE INFORMATION	3
II. THE BOARD OF DIRECTORS	5
III. MANAGEMENT TEAM	7
IV. CHAIRMAN'S STATEMENT.....	10
V. REPORT OF THE MANAGING DIRECTOR.....	12
VI. CORPORATE GOVERNANCE STATEMENT.....	14
VII. MANAGEMENT DISCUSSION AND ANALYSIS	18
VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT	20
IX. REPORT OF THE DIRECTORS	21
X. STATEMENT OF DIRECTORS' RESPONSIBILITIES	22
XI. REPORT OF THE INDEPENDENT AUDITORS ON THE ENTITY (NCPB).....	23
XII. STATEMENT OF COMPREHENSIVE INCOME.....	24
XIII. STATEMENT OF FINANCIAL POSITION.....	25
XIV STATEMENT OF CHANGES IN EQUITY.....	27
XV STATEMENT OF CASH FLOWS	28
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS	
XVI FOR THE YEAR ENDED 30 JUNE 2019	29
XVII NOTES TO THE FINANCIAL STATEMENTS	30
XVIII PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS.....	46
XIX APPENDIX 2: INTER-ENTITY TRANSFERS	63

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

I. CORPORATE INFORMATION

Background information

National Cereals and Produce Board was established by Chapter 338 Act of Parliament on 8th August 1985. At cabinet level, the Board is represented by the Cabinet Secretary for Agriculture who is responsible for the general policy and strategic direction of the Board. NCPB is domiciled in Kenya and has several branches spread all over the country.

Principal Activities

The main activities of the Board are:-

- a) Trading in agricultural produce, i.e. maize, wheat, rice, beans, millet, green grams and sorghum
- b) Management of the country's Strategic Grain Reserves (SGR) and Famine Relief stocks on Agency basis on behalf of the Government of Kenya.
- c) Provision of grain related services of storage, quality maintenance and storage facilities to third parties and,
- d) Importation and sale of farm inputs.

Vision Statement

A world class corporation in agricultural commodity trade and grain management

Mission Statement

To trade in quality grains, agricultural products and related services

Values

To achieve our Vision and Mission, the following Core Values are our guiding principles:

- Integrity
- Team work
- Customer Focus
- Quality Service
- Innovation and Creativity

Directors

The Directors who served the entity during the year were as follows:

- | | |
|---------------------------------|-------------------------------------------------------------------------------------------------------------|
| 1. Mutea Iringo, CBS | - Chairman (Appointed on 8 th April 2018) |
| 2. Mr. Joseph Muna Kimote | - Managing Director (Appointed on 24 th June 2019) |
| 3. Eunice Wanjiru Kamau Karanja | - Member (Appointed 14 th December 2018) |
| 4. David Wafula Wekesa Lazaro | - Member (Appointed 5 th June 2018) |
| 5. Amb. David M. Mutui | - Member (Appointed 3 rd May 2019) |
| 6. Ms. Jane Waroga | - Member (Appointed 3 rd May 2019) |
| 7. Mr. Philip Tarus | - Member (Rep. Devolution & ASAL's)(Appointed 12 th Oct 2018) |
| 8. Mr. Francis Musyimi | - Alternate Director to the Permanent Secretary
National Treasury (Appointed 26 th Nov. 2018) |
| 9. Mr. Badu Katelo | -Member (Rep. Rep. MOALF&I) (Appointed 2 nd July 2019) |

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020



Corporate Headquarters

Nyumba ya Nafaka
Machakos Road
P.O. Box 30586
Nairobi, Kenya

Corporate Contacts

Telephone: 254(20) 536028/555288
E-mail: md@ncpb.co.ke
Website: ncpb.co.ke

Corporate Bankers

- | | | |
|--------------------------------------------------------------|-----------------------------------------------------------------|-----------------------------------------------------------|
| 1. Kenya Commercial Bank
P.O. Box 48400
<u>NAIROBI</u> | 2. Cooperative Bank of Kenya
P.O.Box 48231
<u>NAIROBI</u> | 3. Consolidated Bank
Koinange Street
<u>NAIROBI</u> |
|--------------------------------------------------------------|-----------------------------------------------------------------|-----------------------------------------------------------|

Independent Auditors

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

Principal Legal Advisers

- | | |
|-------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------|
| 1. The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya | 2. Advocates
Various
A list is available at the Board |
|-------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------|

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

II. THE BOARD OF DIRECTORS



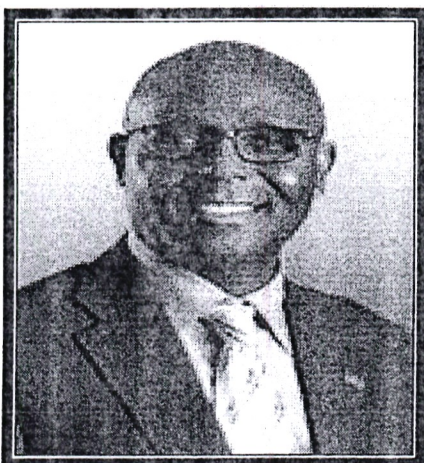
Mutea Iringo, Chairman, OGW, EBS, CBS, NDC (K)

Born in 1961. Has over 25 years' experience in public service having started his career as an Assistant Secretary in the Ministry of Local Government, later to the Office of the President as a District Officer, where he rose to become a Senior District Commissioner and later promoted to secretary in charge of internal security.

He served as Permanent Secretary in the Ministry of State for Provincial Administration and later Principal Secretary, Ministry of Interior and Coordination of National Government and Internal Security and finally Principal Secretary Ministry of State for Defence.

Holds a Master's Degree in International Studies and a Bachelor's Degree in Political Science from the University of Nairobi. He is also an alumni of National Defence College (NDC) where he studied policy and strategy formulation. He has trained in management and security in Kenya School of Government and Internationally in USA and Israel.

MANAGING DIRECTOR, MR. JOSEPH MUNA KIMOTE



Mr. Kimote holds a Master of Business Administration (MBA) from Moi University and a Bachelor of Arts degree in Economics from The University of Nairobi. Before joining the Board, Mr. Kimote was the General Manager at the National Social Security Fund (NSSF). He has held several other leadership positions including Director – Institutional Planning and Development, United States International a University; Project Manager – USAID/EPC Trade Development Programme, and a Senior Consultant at Deloitte & Touche. Joseph is a Full member of the Institute of Directors of Kenya, Kenya Institute of Management and Institute of Human Resource Management. He is also a member of the Board of Directors of Bamburi Cement Limited. He has also previously served as a Board Member National Bank of Kenya Limited, AIC Kijabe Cure International Hospital and Precious Blood Secondary School, Riruta. He has undergone extensive trainings in Advanced Leadership and Corporate Governance locally and internationally.

Eunice Wanjiru Kamau Karanja



Born 1972, Holds a masters in Strategic management and leadership from St. Paul's University and a Bachelor of commerce degree (Human resource Management) from Catholic university of Eastern Africa. She has over 15 years working experience. Before joining NCPB she was a director at Water service and regulatory Board and has held other key positions in various institutions including UNDP, NSC, KBS, PSC and AMREF.

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020



David Wafula Wekesa Lazaro

Born 1961, Hon. David Wafula Wekesa Lazaro is an immediate former member of parliament Saboti constituency where he served in various house committees including: Committee on appointments, Committee on Defence and Foreign relations, Select committee on National Government Constituency Development Fund (NG-CDF) and committee on house Rules and procedures. Previously he worked with Kenya national Assembly in various positions and departments. He holds a diploma in Archives and record management



Ms. Jane Waroga

Born in 1962. Holds a Bachelor of Arts Degree (Social Work) from the University of Nairobi and a Diploma in Counseling from Kenyatta University. Before joining NCPB she was a Director at Embu Water and Sanitation Company. Has over 30 years working experience

She has worked in various capacities at Plan International.



AMB. David Mutemi Mutui, MBS

Born in 1956 Holds Master of Arts in International Conflict Management (MAICM) from the University of Nairobi and Bachelor of Arts (BA) Public Administration and Political Science, University of Nairobi. A member of the Kenya Association for Public Administration and Management (KAPAM). He has 30 years' work experience in public administration and diplomacy. Before joining NCPB he was a Director of Beada Millers Ltd, Nakuru. He has held other key positions in various ministries including Ministry of Foreign Affairs and International Trade, Ministry of Justice, National Cohesion and Constitutional Affairs, Ministry of Development Coordination. He has also held various positions in the public administration in different counties including Wajir County, Bomet County, Baringo County, Nakuru County and Kisumu County.

Philip Tarus, Board Member (Alternate to PS, State Department of Special Programmes)

Mr. Francis Musyimi, Board Member Representing the National Treasury.

Dr. Stephen Ikiiki. Treasury appointed on 23/04/2020

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

III. LEADERSHIP MANAGEMENT TEAM

MR. JOSEPH MUNA KIMOTE, MBS. Managing Director (Appointed 24th June 2019)



Mr. Kimote holds a Master of Business Administration (MBA) from Moi University and a Bachelor of Arts degree in Economics from The University of Nairobi. Before joining the Board, Mr. Kimote was the General Manager at the National Social Security Fund (NSSF). He has held several other leadership positions including Director – Institutional Planning and Development, United States International a University; Project Manager – USAID/EPC Trade Development Programme, and a Senior Consultant at Deloitte & Touche. Joseph is a Full member of the Institute of Directors of Kenya, Kenya Institute of Management and Institute of Human Resource Management. He is also a member of the Board of Directors of Bamburi Cement Limited. He has also previously served as a Board Member National Bank of Kenya Limited, AIC Kijabe Cure International Hospital and Precious Blood Secondary School, Riruta. He has undergone extensive trainings in Advanced Leadership and Corporate Governance Locally and Internationally.

Samuel Karogo Ndung'u , General Manager, Finance and Accounting



Mr. Ndung'u is a holder of a Master's degree in Business Management (Finance) from the University of Nairobi, and a Bcom graduate of Mangalore University, India. He has a wealth of experience in financial management and accountancy gained from serving both in public and private sectors. He has worked as an Audit Senior at WIA East Africa and with the Nyeri Water and Sewerage Company as head of Internal Audit and as Head of Finance and Administration; a position he held until January 2018. He also worked for Civicon Limited, a leading construction Company as the Chief Accountant. Mr. Ndung'u is a Certified Public Accountant of Kenya, a member of the Institute of Certified Public Accountants (ICPAK), a Certified Public Secretary and a member of the Institute of Certified Public Secretaries of Kenya (ICPSK)

John M. Matiri, General Manager Marketing and Operation



John M. Matiri holds both a Master's in Business Administration and a Bachelor of Commerce degree from Kenyatta University. He has more than 25 years' experience in the agriculture sector where he started off as an Agricultural Officer and rose to become an Assistant director in the Ministry of Agriculture, Livestock, Fisheries and Irrigation. He later worked in the County Governments of Isiolo and Nyeri as the County Director of Agriculture and as Director of Trade and Investment respectively. He has also served as a part time lecturer in customer care and strategic planning at the Kenya Institute of Administration (KIA) and Kenya School of Government (KSG). Mr. Matiri is a full member of the Chartered Institute of Marketing (CIM), UK; Marketing Society of Kenya (MSK) and Kenya Society of Agricultural Professionals (KESAP), and has won awards for outstanding performances in crop production from F.A.O and Kenya National World Food Committee

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020



John K. Ngelich, Corporate Secretary & Head of legal service

Joined the Board's Legal Department in 1999 after previously working for Hilian Investments (K) Limited. A Qualified advocate, he holds a Bachelor of Laws and BA (Political Science) degrees as well as a Post-graduate Diploma in Law. He responsible for overall Overseeing and undertaking all legal aspects of the Board's Business and secretarial services.

NATIONAL CEREALS AND PRODUCE BOARD
 ANNUAL REPORT AND FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30TH JUNE 2020

Senior Management Team

No	NAME	TITLE
1	Joseph Muna Kimote	Managing Director
2	Samuel Karogo Ndung'u	General Manager, Finance and Accounting
3	John M. Matiri	General Manager Marketing and Operation
4	John K. Ngetich	Corporation Secretary & Head of legal services
5	Noah K. Koskei	Corporate Planning Manager
6	Bernard K. Yegon	Manager, Risk and Compliance
7	Evans S. Wasike	Manager Human Resource and Administration
8	Nelson Waswa Sawenja	Procurement Manager
9	Ambrose Njoroge Mutua	Ag. Internal Audit Manager
10	Jones M. Kanyaa	Manager Warehousing and Logistics
11	Aziz Musa Ngare	Ag. Information & Communications Technology Manager
12	Ernest M. Ogwora	Manager, Monitoring and Evaluation
13	John M. Gichuru	Ag. Finance Manager
14	Muoka Mwangi	Ag. Technical Manager
15	Michael Karanja Wainaina	Security Manager
16	Erastus K. Sumaili	Ag. Chief Accountant
17	Gideon Muthuri	Marketing Manager

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

IV. CHAIRMAN'S STATEMENT

Overview of Economic Review

Kenya's economy has been hit hard through supply and demand shocks on external and domestic fronts, interrupting its recent broad-based growth path. This is not only because of the COVID-19 (coronavirus) pandemic, but also because of the locust attack which started early 2020 affecting many parts of Kenya especially the North East. Therefore, the food security and growth of the agriculture sector in the country has been adversely impacted in a great manner.

Kenya's real gross domestic product (GDP) growth is projected to decelerate from an annual average of 5.7% (2015-2019) to 1.5% in 2020, according to the World Bank's Kenya Economic Update (KEU). However, if it takes longer than expected to bring the COVID-19 pandemic under control, GDP could contract by 1.0% in 2020, and see a delay in the projected recovery to 5.2% growth in 2021. The downside risks include a protracted global recession undermining Kenya's export, tourism and remittance inflows, further tightening of COVID-19 health response measures that disrupt the domestic economic activity, fiscal slippages and weather-related shocks.

The COVID-19 (coronavirus) global pandemic will have a large negative impact on the Kenyan economy. Even before being affected by the novel coronavirus, Kenya's economy had decelerated. The World Bank estimates that GDP growth in 2019 was about 5.6 percent, down from 6.3 percent in 2018. The COVID-19 (coronavirus) shock is expected to further reduce growth in 2020 with large impacts on services (transport, retail trade, tourism, events, leisure, etc.), industry (manufacturing and construction), and agriculture.

World Bank support to Kenya's pandemic response includes emergency funding to strengthen medical services and reduce the spread of the virus, as well as budget support to help close the fiscal financing gap while supporting reforms that help advance the government's inclusive growth agenda.

In addition to aligning the country's long-term development agenda to Vision 2030, the President outlined the "Big Four" development priority areas for his final term as President prioritizing manufacturing, universal healthcare, affordable housing and food security.

Agriculture Subsector Review

The 19th Kenya Economic Update, Unbundling the Slack in Private Investment, says agriculture is a major driver of growth for the Kenyan economy and is the dominant source of employment. The report notes the agriculture sector contributed on average 33% of gross domestic product (GDP), with at least 56% of the total labor force employed in agriculture in 2019. Agriculture is also responsible for most of the country's exports, accounting for up to 65% of merchandise exports in 2019. As such, the sector is central to the government's Big 4 development agenda, where agriculture aims to attain 100% food and nutritional security for all Kenyans by 2022.

Financial Highlights

During the period, NCPB posted a net loss from its core operations amounting to **Kshs.1.09** billion as compared to a loss of Kshs. **717** million posted in 2018/2019 FY

Key Activities

Maize Situation

During the first quarter of the year, the country experienced food supply deficit and the Government was put under pressure to allow importation of maize under the Food Subsidy Programme to cushion consumers. However, the Government did not allow importation but instead released SFR maize to approved millers at subsidized price so as to contain maize flour price which were rising by the day. The Government authorized sale of 3.9 million x 90 Kg bags to be sold to millers both for Animal feeds and human consumption

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

Fertilizers Distribution

During the year NCPB did not purchase its own fertilizer due to liquidity constraints associated with non-settlement of PIFs loans owed to KCB bank. The inadequacy of funds was also contributed by failure of GOK to pay NCPB the subsidy component. However, NCPB handled assorted fertilizers on agency basis with various suppliers.

Wheat Handling

NCPB participated in the wheat subsector by offering storage and cleaning facilities to millers as well as farmers.

Strategic Focus

The vital role played by NCPB in ensuring national food security and general stabilization in supply is underscored during times of shortage or surplus when it becomes necessary to release maize to the market to protect the consumer or mop up surplus grain to cushion eminent exploitation of the farmers. More importantly, distribution of fertilizers ensures access to quality inputs across the entire country with the aim of boosting production for National Food self-sufficiency.

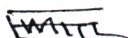
To ameliorate this conflict, the Government of Kenya through MOALF commissioned a restructuring study that has so far led to the establishment of Strategic Food Reserve Oversight Board. It is expected that other recommendations of the study will be implemented that will go a long way in enhancing organisational effectiveness

The key recommendations of the study conducted by Ernest and Young consulting firm are as summarised below: -

- a) Establishment of an independent **Grain Regulator** to regulate the grain industry in the country
- b) Separation of the Social and Commercial roles to enable NCPB play its rightful role in liberalized and competitive grain market through establishing **a National Food Security Agency**.
- c) Restructuring the current NCPB into **Grain Corporation of Kenya** that will deal with the commercial activities including becoming a major National Warehousing institution to support on-going market reforms.
- d) Expansion of the **Warehouse Receipting System (WRS)**
- e) Establishment of **a Commodity Exchange (COMEX)** that encompasses all agricultural commodities in the region.
- f) Preparing adequate **Legal and Regulatory Framework** to govern and assist grain trade to prosper.

The report was submitted to the Government and further guidance on its implementation are being awaited.

In meantime, NCPB has commenced internal re-organization to strengthen processes that are key to invigorate corporate performance and effectiveness. This is in line with the envisaged NCPB pivotal role under the government Big 4 Action plan and more particularly Food Security Agenda.



Mr. Mutea Iringo, CBS
CHAIRMAN

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

V. REPORT OF THE MANAGING DIRECTOR

NCPB management continuously scans the operating environment so as to institute and adapt appropriately to emergent factors. During the year under review, the management organized retreats that reviewed various activities that included the role of NCPB under the Government Big 4 Agenda, specifically under Food Security, revamping revenue generation, as well as cost reduction initiatives. Continuous review of set short-term, medium-term and long-term goals to ensure turnaround to profitability, self-sustainability and support to government agenda on Food Security, attainment of Vision 2030 expectations as well as goals and strategies set out in the NCPB Strategic Plan 2015/2016-2019/2020.

To position NCPB strategically, appropriate policies and strategies will continue to be put in place so as to harness the gains made towards attainment of profitability and consistently provide adequate and affordable food and farm inputs to Kenyans.

Operations

The year under review commenced with an expected pumper harvest of maize to the extent that the Government put in stringent measures to ensure that maize was purchased only from genuine farmers. A maximum of 400 x 90 Kg bags was set for every farmer. During the year under review Cab Memo for restructuring of NCPB and food security was approved by the cabinet paving way for the formation of National food reserve fund, National trading agency and National food balance sheet. SFR was also disbanded due to duplication of functions with NCPB and subsequently the functions of SFR were transferred to NCPB

NCPB as Government agent continued executing intervention programmes in management of SFR maize as well as distribution of subsidised fertilizers

During the year under review, NCPB continued to be faced with serious challenges in its turnaround strategies posting losses from its operations amounting to Kshs 1.09 billion as compared to a loss of Kshs 717 million posted in 2018/2019 FY. The gross sales turnover reduced from 2.77 billion in 2018/2019 FY to Kshs 692 million in 2019/2020 FY due to non-participation by the Board in maize and fertilizer businesses. This was compounded by failure by GOK to pay NCPB the subsidy component on time and SFR not paying for agency services rendered. This made NCPB fail to repay the PIFs on maturity and thereby incurring huge finance costs.

However, accumulation of huge debts by the Government amounting to Kshs.16.8 billion is adversely affecting operations of the Board. This coupled with weak working capital meant that NCPB had to heavily rely on expensive commercial bank borrowings despite the inherent risk of interest. As at the close of the year NCPB had bank obligations amounting to Kshs. 5.9 billion and Kshs.1.1billion due to farmers

All through these challenging times, the Board remained resilient by maintaining a disciplined focus on turnaround strategy. Management strengthened the strategic intent on controlling cost, enhancement of capacity utilization and focused on development of value addition capacity.

More importantly, NCPB continued to develop linkages with other Institutions to address emergent challenges, one being the MOALF that has been pivotal in resolving historical agency tax arrears, old outstanding debts, as well as constraint in the purchase of local maize as well as subsidised fertilizers distribution.

During the year NCPB received Kshs. 1.01 billion from GOK which was used to pay farmers for maize deliveries in 2017/2018 and 2018/2019 FY as well as agency fees. However, NCPB is still awaiting release of Kshs. 1.1 billion to clear the outstanding debt to farmers for 2017/2018 FY maize deliveries.

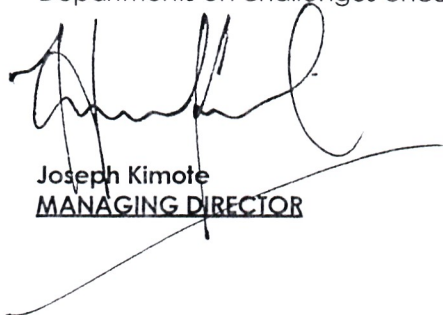
NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

On social interventions, NCPB distributed 131,929 bags of maize on behalf of the MODP for relief programme and offered storage services for other foodstuff and social intervention materials.

ISO TRANSITION

The Board was certified in 2015 and was due for re-certification as well as transitioning to ISO 9001:2015 standards in 2018 however the process has been delayed due to financial constraints; consequently, the Board has now commenced the process of transition to the new standard that is risk based. Implementation of new standard means that the organization will be able to identify risks and opportunities thus will be able to develop action plans to address them. The Board hopes to reap from this new perspective as it provides an opportunity to reduce risks associated with carrying out its mandate and improve service delivery leading to greater customer satisfaction and achievement of the organization's quality objectives. The ongoing business process re-engineering is one of the activities being carried out with the aim of improving efficiency in the Board and will feed into the revision of the existing Quality Management System (QMS).

This process will also be informed by reviews and recommendations made by various Government Departments on challenges encountered during the season's maize purchase process



Joseph Kimote
MANAGING DIRECTOR

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

VI. CORPORATE GOVERNANCE STATEMENT

Corporate Governance is the system through which corporations are directed, controlled and operated as power is exercised over its assets and resources. National Cereals and Produce Board (herein after referred to as NCPB) considers corporate governance to be a critical issue towards maintenance of business integrity and stakeholders' trust and is therefore an integral part of our operations philosophy. Our corporate governance values are founded on the **Mwongozo** the code of governance for state corporations. The Board is responsible for NCPB's corporate governance practices and as in place mechanisms to ensure observance and report on its compliance status on a regular basis.

Our high standards of corporate governance are not an exercise in compliance, but a means of driving the performance of the business and operations whilst managing and mitigating risk.

Board Composition

The NCPB is managed by the Board of Directors appointed by the President as provided by the NCPB Act cap 338. The Board consists of eleven directors who are non-executive except for the Managing Director who is executive. Notably, the Board is composed of directors with a diverse mix of skills, experience and competencies in the relevant fields of expertise and is well placed to take the organization forward. The Board Secretary is responsible for monitoring and coordinating the Board's agenda and papers.

Appointments and Induction to the Board

Directors are appointed in accordance with the NCPB Act Cap 338. On appointment, directors receive an induction covering the NCPB. As part of this process, the NCPB organizes for regular training on corporate governance as per the calendar of SACC. Directors are advised on the legal, regulatory and other obligations of a director of a state corporation and updated on industry and regulatory developments as they take place. All directors also have access to the Board Secretary, who is responsible for ensuring that the Board's procedures are followed and that applicable laws and regulations are complied with.

Board's Responsibilities

The Board of directors is responsible for providing policies and leadership to NCPB. The Board's duties and responsibilities include: -

- Setting policy guidelines for management and ensuring competent management of the business including the selection, supervision and remuneration of Senior Management;
- Ensuring that the business of NCPB is conducted in compliance with relevant laws and regulations; and
- Monitoring performance.

Board and Strategy Meetings

An annual plan of scheduled Board meetings is prepared each year in advance and provided to all directors. The full Board meets at least four times a year (quarterly basis) and special meetings may be convened when need arises. Guidelines are in place concerning the content, presentation and delivery of Board Papers for each Board meeting to ensure that directors have adequate information and sufficient time for appropriate briefing ahead of each meeting. The Board is in charge of overall strategic direction and approved business plans which form the basis of performance assessment.

Board Chairman and Managing Director

The roles and responsibilities for the Chairman of the Board and the Managing Director are distinct and separate. The chairman provides overall leadership to the Board in line with principles of collective responsibility for Board decisions. The Managing Director is responsible to the Board and takes charge of

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

executive management in the course of effective and efficient running of the NCPB on a day-to-day basis.

The Board has delegated to the Managing Director authority to implement Board decisions with assistance from Management team.

Board performance Evaluation

The Board is responsible for ensuring that an evaluation of its performance and that of its committees and individual directors is carried out each year. This involves a self-review of the Board's capacity, functionality and effectiveness of performance against its set objectives. Evaluation enables directors to suggest how Board procedures may be improved by assessing strengths and weaknesses and addressing its balance of skills, knowledge and experience. This is done by way of both the peer and self-evaluations under the guidance from SACCC who are the custodian of the tool.

Director's Remuneration

The Government guidelines on remuneration of the directors provide the payable amount. The Directors are not eligible for pension scheme membership or dividends.

i

Internal Control and Audit

The Board has collective responsibility for establishment and management of appropriate systems of internal control and for reviewing their effectiveness. The system of internal control in place has defined procedures with operational and financial controls to ensure that assets are safeguarded, financial transactions authorized and recorded properly, and that material errors and irregularities are either prevented or detected within a reasonable period of time.

The Board reviews effectiveness of internal control systems in place by considering results of work carried out to audit and review NCPB by both internal and external audit providers. Internal audit is carried out by an independent Internal Audit Department that reports to the Board Audit Committee and provides confirmation that the NCPB operations, policies and procedures as set by the Board are being complied with. The Board has reviewed the NCPB system of internal control and is satisfied that the system is effective. However, the Board recognizes that any system of internal control can provide only reasonable and not absolute assurance against material misstatement or loss.

Risk Management and Compliance

The Board of Directors has overall responsibility for the establishment and oversight of NCPB's management framework. The Board's audit Committee is responsible for developing and monitoring NCPB risk management policies established to identify and analyse the risks faced by the NCPB to set appropriate risk limits and controls, and to monitor risks and adherence to limits. NCPB through its training and management standards and procedures aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board has also set up Risks Compliance Department that evaluates the NCPB's compliance framework, identifies and monitors relevant legislation applicable and ensures adherence to NCPB's policies as well as legislative and regulatory requirements including changes arising and their impact.

Conflicts of Interest

The Board's policy provides that Directors, their immediate families and companies in which directors have interests only do business with NCPB at arm's length. Where a matter concerning NCPB may result in a conflict of interest, the director is obliged to declare the same and exclude themselves from any discussion or vote over the matter in question. Directors also have a duty to avoid situations of appointment to positions or acquisition of significant interest in businesses competing with NCPB. Business transactions with directors and related parties are disclosed in notes to the financial statements.

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

Board Sub-committees

To enhance the breadth and depth of achieving Board responsibilities, the Board has delegated authority to various sub-committees although the Board retains ultimate collective accountability for performance and corporate governance. Committees of the Board are as follows:

- 1 Finance and Procurement Oversight
- 2 Audit Committee
- 3 Operations, Business Development & Strategic Planning
- 4 Human Resource & Legal Affairs

These committees have formally determined terms of reference with defined scope of authority, set by the Board of Directors which are from time to time refreshed to synchronize them with new developments and government guidelines.

Finance and Procurement oversight Committee

The Membership of the committee comprises of at least four directors and the Managing Director, currently constituted as hereunder: -

- | | |
|-----------------------|---------------------------------|
| • Amb. David M. Mutui | Chairperson |
| • Mr. Joseph Kimote | Managing Director |
| • Mrs. Eunice Karanja | Member |
| • Mr. Francis Musyimi | Member |
| • Mr. Badu Katelo | Member |
| • Mr. John K. Ngetich | Secretary (Corporate secretary) |

The committee meets at least every quarter. The objective of the committee is to assist the Board of Directors in reviewing the financial statements and overseeing the procurement of NCPB. The committee is responsible to review the quarterly financial statements and the performance contract implementation. Also oversee the implementation of the approved procurement plan for the financial year.

Audit and Risk Committee

The committee comprises at least five non-executive directors, the majority of whom shall be independent non-executive directors, currently constituted as hereunder: -

- | | |
|-------------------------|------------------------------------|
| • Ms. Jane Waroga | - Chairperson |
| • Hon. David W. Wekesa | Member |
| • Mr. Philip Tarus | Member (Rep. Devolution & ASAL's) |
| • Mr. Francis Musyimi | Member (Rep. National Treasury) |
| • Mr. Ambrose Njoroge - | Secretary (Internal Audit Manager) |

The committee meets every quarter with internal auditors without management being present and may attend on invitation. Meetings are normally attended by resources from Departments of Internal Audit and Risk Management & Compliance.

The objective of this Committee is to provide independent oversight of NCPB's financial reporting and internal control system, ensure checks and balances within the NCPB are in place and recommend appropriate remedial action regularly and ensures quality integrity and reliability of the Bank's and its subsidiaries risk management. It also assists the Board of Directors in the discharge of its duties relating to the corporate accountability and associated risks in terms of management, assurance and reporting.

The terms of reference of Committee are achieved through review and evaluation of the financial status of the NCPB, review of internal controls, consider performance and findings of internal auditors and recommend appropriate remedial action, review management reports and reports form external

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

auditors concerning deviations and weaknesses in accounting and operational controls, coordinate between the internal audit function and external auditors, monitor the ethical conduct of the institution and consider the development of ethical standards and requirements, including effectiveness of procedures for handling and reporting complaints, review any related party transactions that may arise within the industry set out the nature, role, responsibility and authority of the risk management and independent compliance functions in NCPB and outline the scope of risk management work, monitor external developments relating to the Practice of corporate accountability and the reporting of specifically associated risks, including emerging and prospective impact, provide independent and objective oversight and review of the information presented by the management.

Operations, Business Development & Strategic Planning Committee

The Membership of the committee comprises of at least four directors and the Managing Director, currently constituted as hereunder: -

- Ms. Eunice Karanja Chairperson
- Mr. Joseph Kimote Managing Director
- Amb. David M. Mutui Member
- Mr. Philip Tarus Member (Rep. Devolution & ASAL's)
- Mr. Badu Katelo Member (Rep. MOALF&I)
- Mr. John K. Ngetich Secretary (Corporate secretary)

The committee meets at least every quarter. The objective of the committee is to assist the Board of Directors in reviewing the operations, business development and strategic planning of NCPB. The committee is responsible to review the quarterly operations, business strategies, research & planning and implementation of the strategic plan.

Human Resource and Legal Affairs Committee

The Membership of the committee comprises of at least four directors and the Managing Director, currently constituted as hereunder: -

- Hon. David Wafula Wekesa Chairman
- Mr. Joseph Kimote Managing Director
- Ms. Jane Waroga Member
- Ms. Eunice Karanja Member
- Mr. Philip Tarus Member (Rep. Devolution & ASAL's)
- Mr. Badu Katelo Member (Rep. MOALF&I)
- Mr. John K. Ngetich Secretary (Corporate secretary)

The committee meets at least every quarter. The objective of the committee is to assist the Board of Directors in policy framework relating to NCPB Human Resources and Legal Affairs, including policies on the hiring, firing, remuneration package promotions, medical, staff loans, and all other matters as spelt out in the staff policy manual, training and staff development, staff welfare, code of conduct and performance index.

Similarly, it is tasked with the responsibility of overseeing the legal department and receiving reports on the status of all legal matters including ongoing court case matters.

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

Directors' Attendance 2019/2020FY

No	Names	Designation	Full Board	Sub-Committees			
				Finance & Procurement Oversight)	Operations, business Development & Strategic Planning	Human Resource & Legal affairs	Audit
1.	Mutea Iringo	Chairman	6	0	0	0	0
2.	Amb. David M. Mutui	Member	6	5	0	0	0
3.	Mr. Badu Katelo	Member	1	0	1	1	0
4.	Mr. Bernard Ngulalu	Rep. (Inspectorate)	5	0	0	0	0
5.	Hon. David Wafula	Member	6	1	3	7	4
6.	Ms. Eunice Karanja	Member	6	3	3	7	1
7.	Mr. Phillip Tarus	Rep. (MOD & ASAL's)	4	0	0	3	2
8.	Mr. Francis Musyimi	Rep. (Treasury)	5	2	0	0	2

VII. MANAGEMENT DISCUSSION AND ANALYSIS

1. Establishment of the Commodity Exchange / Warehouse Receipt System

Establishment of WRS and COMEX is expected to revolutionize the grain trading in the country. This will enable farmers to deposit their produce during times of harvest and sell when prices improve. The advantage is that, the system will curtail exploitative tendencies exhibited by middlemen and ease food supply throughout the year.

This will also address the need for Government led price intervention commodity market towards economic based markets.

The progress is as follows;

- (i) The proposed Warehouse Receipt System Bill 2015 which had been approved on 31st August 2016 by Parliament, was referred to the Senate owing to the effects of the bill that affect the county affairs which require the Senate to pass all Acts touching on devolve function. It had been scheduled for debating and passing at the Senate however due to time constraints it was not reached and therefore it is expected to be brought for debating and passing once the Senate is convened.
- (ii) The Ministry of industry, Trade and Cooperatives is currently seeking consultancy services to support the establishment of a Commodities Exchange. The consultant is expected to provide technical assistance in establishing and operationalizing a commodities exchange in Kenya.

In order to operationalize the WRS, NCPB is in the process of identifying and upgrading specific storage facilities country-wide alongside other stakeholders which shall be used for Warehouse Receipting.

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

2. e-Commerce

The modern trade transactions are now becoming more sophisticated with adoption of ICT and mobile technologies. NCPB has embraced e-commerce not only through automation of its ICT platform that is capable of linking all the 110 depots countrywide on on-line basis but also embraced mobile money and electronic transfers as mode of settlement for commodity purchases and payment to farmers for deliveries as well as other suppliers.

To enhance controls in the identification of farmers benefiting from subsidized fertilizers, NCPB in conjunction with MOALF and Safaricom Ltd are implementing a e-subsidy platform. The platform contains a farmers' register with the details on identification, acreage, fertilizer requirements as well as option of paying through Mpesa.

3. Devolution of Agriculture

The adoption of 47 devolved units in 2013, upon promulgation of the new constitution, led to the devolution of agriculture sector. NCPB as a national entity has depots in 46 counties with one county being served through primary marketing centers.

This approach requires NCPB to work in collaboration with county governments in the process of farmers registration, vetting subsidized fertilizers beneficially and identification of families and institution for food supply during times of supply constraint.

CHALLENGES AND OPPORTUNITIES

The challenges that NCPB is facing are both historic financial and operational and which include the following: -

Low working Capital

NCPB's working capital was eroded to extremely low levels as a result of Government limitations in meeting working capital injection obligation to NCPB and losses incurred in carrying out Government initiated market stabilisation programmes.

From previous years' GoK social intervention programmes implemented by the Board, NCPB is owed Kshs.3.8 billion. This has led to over- reliance on expensive bank overdraft and loans that servicing of interest is a major drain on meagre resources

In order to address the challenges facing the Board and turn it round to profitability, the Government of Kenya through the Ministry of Agriculture commenced restructuring of the Board by commissioning Ernst and Young as the consultants on 13th May 2013.

Summary of Proposed Restructuring

- i) Change of name: from National Cereals and Produce Board (NCPB) to Grain Corporation of Kenya (GCK).
- ii) Separation of NCPB's social and commercial functions, and creation of suitable entities to enhance its service delivery in the grain sector.

To achieve this, the report recommended creation of four independent entities, namely; -

- Grain Regulatory Commission.
- Grain Corporation of Kenya (Restructured NCPB).
- National Food Security Office Agency (Management of the strategic grain reserves and famine relief stocks).
- Commodity Exchange (COMEX) Market.

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

- iii) The report further recommends restructuring of the balance sheet that will involve settlement of NCPB outstanding debt of Kshs. 3.8 billion and a capital injection of Kshs. 3 billion to enable the restructured NCPB revamp its commercial operations.

Aging physical infrastructure

Most of the storage facilities are old and some grain handling technology being used is fast becoming obsolete having been put in place in 1980s and early 1990s. Moreover, some storage facilities were set up in remote areas for food relief operations that do not breakeven under commercial principles. The need to marshal resources to upgrade the facilities and maintain stores that are not economically viable has become a major challenge to NCPB.

NCPB has commenced depot rationalization process that will lead to shedding off of underutilized storage facilities. The process involves categorization of depots based on their business contribution and moth-balling of depots that are not financially viable.

Unpredictable production trends

Arising from over-reliance on rain feed production; the agricultural sector has to contend with unpredictable food production level. This unpredictability results into production glut or deficits that both call for intervention to alleviate suffering by the farming communities or consumers. These demands for deployment of huge resources that overstretched the already depleted NCPB working capital.

The Government effort to refocus on irrigation, early warning systems and restructuring of NCPB is expected to enhance response capacity and predictability of food supply situation

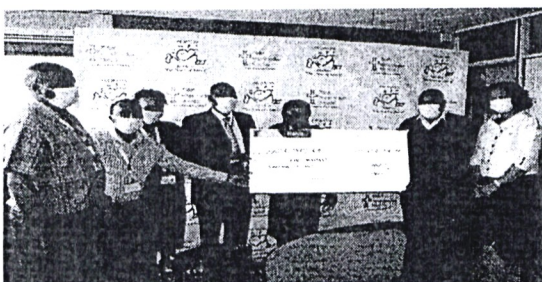
VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

National Cereals and Produce Board has incorporated Corporate Social Responsibility (CSR) as an integral part its operations. The Board's CSR is anchored on a well-defined CSR policy. The following are CSR activities the Board was involved in. The Board's CSR initiatives are centered around wellness, environmental conservation, and community assistance; with emphasis on those economically vulnerable, education and sports and talent development.

Guided by the above, the following are initiatives the Board sponsored or was involved in:



Principal Kirige Day Secondary holding a dummy cheque presented by the Board.



South Rift Regional Manager presenting a dummy cheque to Mater Heart Run.

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020



Reuben Centre Director, Mr. Frank O'shea Receiving Food Stuff from Hon. Linah Kilimo and NCPB staff

IX. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2020.

Principal activities

The Board's principal activity is grain handling and marketing with provision of allied services and facilities as well as distribution of farm inputs. This is in addition to undertaking social functions on behalf of the Government of Kenya on Agency basis that relates to the procurement, storage, quality maintenance, and distribution/sale of famine relief food commodities as well as SGR stock.

Results

The operating results for the year ended 30th June 2020 are set out on page 25 and summarized below: -

	2020	2019
	Kshs	Kshs
Operating profit before Depreciation & Provisions	(577,962,951)	(120,030,854)
Less:		
Depreciation	368,816,568	396,928,698
Amortization	2,156,166	2,396,024
Bad and doubtful debts	<u>150,000,000</u>	<u>197,906,495</u>
	<u>520,972,734</u>	<u>597,231,218</u>
Net Profit	<u>(1,098,935,685)</u>	<u>(717,262,072)</u>

Directors

The members of the Board of Directors who served during the year are shown on page 3. The Board members are appointed by the Cabinet Secretary in charge of Agriculture in accordance to the NCPB Act CAP 338 of the laws of Kenya.

Auditors

The Auditor General is responsible for the statutory audit of the Board in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 to carry out the audit of NCPB for the year ended June 30, 2020.

By Order of the Board


MR JOHN KINGETICH
CORPORATE SECRETARY
NAIROBI
15TH APRIL 2021

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

X. STATEMENT OF DIRECTORS' RESPONSIBILITIES

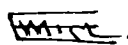
Section 81 of the Public Finance Management Act, 2012, section 14 of the State Corporations Act and National Cereals and Produce Board Act, Cap 338 of the Laws of Kenya require the Directors to prepare financial statements in respect of that NCPB, which give a true and fair view of the state of affairs of the NCPB at the end of the financial year and the operating results of the NCPB for that year. The Directors are also required to ensure that the NCPB keeps proper accounting records which disclose with reasonable accuracy the financial position of the NCPB. The Directors are also responsible for safeguarding the assets of the NCPB.

The Directors are responsible for the preparation and presentation of the Board's financial statements, which give a true and fair view of the state of affairs of the *entity* for and as at the end of the financial year (period) ended on June 30, 2020. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Board; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

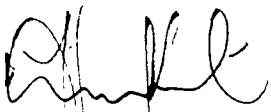
The Directors accept responsibility for the NCPB's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and NCPB Act Cap 338. The Directors are of the opinion that the Board's financial statements give a true and fair view of the state of Board's transactions during the financial year ended June 30, 2020, and of the Board's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Board, which have been relied upon in the preparation of the Board's financial statements as well as the adequacy of the systems of internal financial control.

Approval of the financial statements

The Board's financial statements were approved by the Board on _____ 2021 and signed on its behalf by:



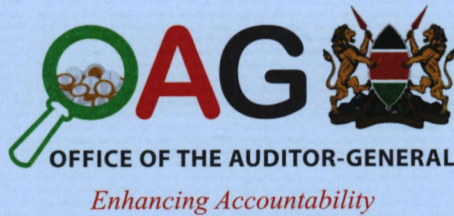
Chairman



Managing Director

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON NATIONAL CEREALS AND PRODUCE BOARD FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Cereals and Produce Board set out on pages 24 to 63, which comprise the statement of financial position as at 30 June, 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which to the best of my knowledge and belief were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements reflect fairly, in all material respects, the financial position of the National Cereals and Produce Board as at 30 June, 2020, and its financial performance and cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and the Public Financial Management Act, 2012.

Basis for Qualified Opinion

1.0 Unconfirmed Balances

Several balances reflected in the financial statements are not supported with adequate and sufficient records and information, as explained in the following paragraphs:

1.1 Cost of Sales

The statement of profit or loss and other comprehensive incomes reflects a cost of sales totalling Kshs.435,454,884 which include purchases totalling Kshs.192,726,398, as disclosed under Note 2 to the financial statements. The purchases include cost of fertilizer amounting to Kshs.138,188,980 that was, however, not supported with procurement records. Audit review of the operations of the Board indicated that the Board did not procure any fertilizer during the year, but was only selling fertilizers on behalf of Minjingu Mines & Fertilizers Limited, Maisha Mavuno and Kel Chemicals Limited and earning a commission in return.

The cost of sales totalling Kshs.435,454,884 is, therefore, overstated by Kshs.138,188,980. Further, the propriety of the expenditure could not be confirmed.

1.2 Other Incomes

The statement of profit or loss and other comprehensive income reflects other incomes totalling Kshs.1,402,422,440 as further disclosed in Note 3 to the financial statements. The balance includes rental income amounting to Kshs.352,084,856, which reduced by Kshs.5,556,971 from Kshs.357,641,836 reported in the previous year. A review of the Board's records and field inspections in that the Board's properties in Kakamega, Kisumu and Nakuru Counties were sublet by tenants to third parties but the rental income was not remitted to the Board. No evidence was provided to confirm whether the tenants had obtained consent from the Board before subletting the Board's properties which was contrary to the requirements of the respective lease agreements.

Further, the Board leased out Nakuru/Municipality Block 7/160 measuring 1.62 hectares or four acres and a three-bedroom house located on the land to three tenants without being valued, at a rate of Kshs.118,000 per month. However, the two tenancy agreements were not dated and as a result, the rent due and paid or outstanding on the contract could not be confirmed. The tenants built numerous business stalls which they sublet to other people whereas the three-bedroom house was converted into a restaurant.

In Block 1/640 in Kakamega Town, the tenant put up permanent structures on the open space and sublet these in disregard to a warning by the Board. In Kitale and Nyahururu depots, there was lack of valid lease agreements between the Board and the tenants in some of the premises.

In view of these issues, the Board may not have realized all rental income due from its leased properties and the completeness of the balance amounting to Kshs.1,402,422,440 on other incomes could not be confirmed.

1.3 Finance Costs

The statement of profit or loss and other comprehensive incomes reflects finance costs totalling Kshs.773,985,432, as disclosed in Note 9 to the financial statements. The amount includes bank charges totalling Kshs.135,110,477 and bank overdraft and loan interest totalling Kshs.638,874,954. Review of records indicated that the Board continued to incur high interest charges on bank loans acquired in the previous years for purposes of financing purchase of subsidized fertilizer through letters of credit with maturity periods of 180 days issued by a commercial bank. The letters of credit were eventually converted to loans on maturity since the Board was not able to pay the respective charges within the agreed periods which in turn occasioned the high interest charges.

1.4 Bad and Doubtful Debts

The statement of profit or loss and other comprehensive income for the year ended 30 June, 2020 reflects Kshs.150,000,000 (2019 – Kshs.197,906,495) relating to provision for bad and doubtful debts. No explanation or documentation was provided

to support the provision and as a result, it was not clear whether the provision is specific or general, and whether it was appropriate.

1.5 Property, Plant and Equipment

1.5.1 Work in Progress

The statement of financial position reflects a net balance of Kshs.5,703,591,015 under property, plant and equipment, as further disclosed in Note 10 to the financial statements. The work in progress includes Kshs.42,979,079 out of which additions amounting to Kshs.11,507,518.01 were not supported with records. Further, records on the projects indicated that respective contracts had lapsed and the projects stalled due to failure by the Board to provide funding or facilitation.

In addition, the contract for fabrication of airtight silos at Moi's Bridge was awarded to a firm on 17 November, 2014 at a cost of Kshs.6,232,214 whereas the consultancy contract was awarded to another firm for the design work and supervision during fabrication and installation, which was not done due to delay in delivery of the fabrications. The consultant wrote to vacate the contract citing lapse of his contract in October, 2014 and was paid Kshs.262,836 for the work done. The project's materials of undisclosed value were left at Moi's Bridge depot and have not been disclosed in the work in progress balance reflected in the financial statements for the year under review.

In view of these issues, the accuracy and completeness authenticity of the work in progress balance totalling Kshs.42,979,079 could not be confirmed.

1.5.2 Lack Asset Ownership Documents

Ownership documents for several assets of the Board were not provide for audit, as explained in the following paragraphs:

1.5.2.1 Land

As similarly reported previously, the property, plant and equipment balance totalling Kshs.5,703,591,015 include thirty-five (35) parcels of land valued at Kshs.1,285,079,450 that do not have title deeds. Information provided by Management indicated that some of the parcels were leased from Kenya Railways Corporation.

Further, title deeds for four parcels of land located in Kericho County identified as LR No. 631/2495, LR No 631/407 Block 5/167, LR No 631/406 Block 5/166 and LR No 631/ 406 Block 5/ 165, and for Nakuru Municipality Block 8/13 located in Nakuru County were not provided for audit verification.

From the foregoing, ownership by the Board of the parcels of land without legal title could not be confirmed and further, the property, plant and equipment totalling Kshs.5,703,591,015 may not be fairly stated.

1.5.2.2 Donor Funded Storage Facilities

As similarly reported previously, and as disclosed under Note 10 to the financial statements, the property, plant and equipment net balance of Kshs.5,703,591,015 as at 30 June, 2020 includes fifty-five (55) donor funded storage facilities whose ownership has not been clarified. Although in its sitting of 11 August, 1998, the Public Investment Committee (PIC) directed both the parent Ministry and Treasury to look into the matter with a view to formerly transfer the facilities to the Board, there was no record of progress made on the matter at the date of this report.

1.5.3 Value-Added –tax Included Cost of Assets

As similarly reported previously, the property, plant and equipment balance totalling Kshs.5,703,591,015 reflected in the statement of financial position includes Kshs.8,540,920 relating to capitalized Value-Added-Tax(VAT), which is contrary to Paragraph 16(a) of the International Accounting Standard (IAS) No.16, which states that, the cost of an item of property, plant and equipment comprises its purchase prices, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates. The VAT charged at 16% of the prices for the respective assets is a refundable purchase tax as the Board is VAT registered.

Consequently, the property, plant and equipment balance of Kshs.5,703,591,015 reflected in the financial statement is not fairly stated.

1.5.4 Depreciation and Amortization of Intangible Assets

Note 4(b) on summary of significant accounting policies states that plant, machinery, and computer equipment are depreciated at 12.5%, representing eight (8) years of useful life. Further Note 4(c) on intangible assets states that purchased computer software is amortized over a period of eight years. However, Management did not explain the economic and technological sense of the software being similarly depreciated over eight (8) years. As a result, it was not possible to verify whether the carrying value of the software was fairly stated.

1.5.5 Encroachment on the Board's Property

Audit inspections at sampled depots revealed encroachment by private parties on the Board's property. In Bungoma, an encroacher had fenced had fenced plot number 485 where the Bungoma silos are located and leased it to a garage operator. In Kisii County there were structures irregularly built by third parties at Block 3/48 measuring 0.0167 ha and Block 3/150 measuring 0.0302 ha. No records were provided to indicate the effort made by Management to recover these lands.

In Nakuru County, the Board did not have ownership documents for land LR/No.3490/16 measuring 0.0878 hectares and it was not possible to physically identify the said land for audit verification.

In Kericho County, there were permanent residential houses built and occupied by third parties who claimed to own the properties and allotment letters for three of the

Board's properties Block.5/65 or L.R NO.631/488, Block.5/66 or L.R No.631/505 and Block.5/67 or L.R No.631/504 measuring 0.03 ha (hectares) , 0.0389 hectares and 0.0335 hectares , respectively. The circumstances under which the land ceased to belong to the Board were not explained. In addition, the properties Block.5/138, Block.2/49 and Block.5/165 measuring 0.0654 hectares , 0.7284 hectares , and 0.0654 hectares had their beacons move inwards from one side and lost tens of metres of land.

In Kakamega County Depot the tenant leasing the land had built permanent structures and also repainted the NCPB office. There were no records indicating that the developments on the property - Block.1/640 - were approved by the Board of Directors.

In view of these issues, the ownership by the Board of the cited properties included in the property plant and equipment balance totalling Kshs.5,703,591,015 as at 30 June, 2020 could not be confirmed.

1.6 Liability on Failed Maize Procurement Contract

As previously reported, the Board entered into a fixed sum contract amounting to Kshs.730,968,000 on 26 November, 2004 for the supply of 40,000 Metric Tons (MT) of white maize at US Dollars 229 per metric tonne which was, however, not executed. The supplier sought for arbitration with the Institute of Chartered Arbitrators - Kenya Chapter and in July, 2009 was awarded US\$ 3,106,000 for breach of contract. On appeal by the Board, the award was increased to US\$6,140,859 being equivalent to Kshs.552,677,382 out of Kshs.264,864,285 has since paid through defrayments effected on the Board's bank accounts. The respective case was pending in court as at 30 June, 2020. As a result, it is not possible to confirm the extent of liability that may arise as a result of the legal claim.

1.7 Inventories

The statement of financial position reflects inventories totalling Kshs.158,099,778 as at 30 June, 2020 as further disclosed in Note 12 to the financial statements. The inventories comprise various stock of cereals and fertilizer, amongst other items. The physical stock-take established inventories totalling Kshs.279,978,125 which differed with value of Kshs.268,822,446 recorded before provisions for stock shrinkage. The variance amounting to Kshs.11,155,679 was not reconciled. In addition, the Navision 2017 software stock take module (ERP) software indicated a stock value of negative Kshs.476,943,531 against the physical balance of Kshs.279,978,125 resulting in an unreconciled variance of Kshs.756,921,655. Although Management explained that the stock variances reflected by the software resulted from its upgrade from Navision 2010 to Navision 2017 modules which had since been reconciled, the reconciliation report was not provided for audit.

Consequently, the accuracy and completeness of the inventories balance totalling Kshs.158,099,773 could not be confirmed.

1.8 Current Liabilities

The statement of financial position reflects current liabilities totalling Kshs.19,249,411,282, which is comprised of various short-term liabilities. However, review of the items included in the balance revealed the following unsatisfactory matters:

- (i) Note 22 to the financial statements discloses trade payables balance totalling Kshs.674,768,324. This balance however includes Kshs.7,655,225 (2018/2019 - Kshs.651,133,127) owed to Export Trading Company for the supply of fertilizer. Management has not explained how the liability arose since the fertilizer was procured through a letter of credit from Kenya Commercial Bank which was subsequently converted into a loan on maturity. Further, although the amount owed to the Company decreased by Kshs.643,477,902 in the year under review, records on payments made to the Company were not provided for audit. As a result, the occurrence of the payment could not be confirmed.
- (ii) The trade creditors and other payables further include sundry payables and provisions totalling Kshs.1,132,839,401. Examination of records, however, indicated that included in the balance were was Kshs.5,277,427 and Kshs.282,096 in respect of Pay-As-You-earn (P.A.Y.E) tax and National Social Security Fund (NSSF) contributions respectively, stale cheques amounting to Kshs.72,916,735 and amounts relating to unremitted VAT deductions. Management did not provide records on these balances and as a result, their validity could not be confirmed.
- (iii) Furthermore, Note 26 to the financial statements reflects creditors due to the National Government on SGR maize sales balance totalling Kshs.4,415,075,082 as at 30 June, 2020. The balance includes maize transport costs totalling Kshs.472,544,025 incurred in the year ended 30 June, 2018, whose documents were not provided for audit verification. In the absence of records, it was not possible to confirm the accuracy of the balance.

As reported in the previous year, included in the current liabilities balance totalling Kshs.19,249,411,282 as at 30 June, 2020 are Value-Added-Tax arrears totalling Kshs.964,765,588 payable to Kenya Revenue Authority arising from the Board being an agent of the Authority. This balance includes Kshs.464,430,643.61 tax arrears that have remained outstanding since 2002. Although the tax arrears have continued to attract penalties and interest, these were not formally assessed and incorporated in the financial statements for the year review.

- (iv) Similarly, and as previously reported, the sundry creditors and provisions balance totalling Kshs.1,132,839,401 disclosed in Note 22 to the financial statements includes Kshs.630,639,332, Kshs.7,359,471 and Kshs.293,269,883 relating to trade creditors, staff creditors and sundry creditors and provisions, respectively that have been outstanding since July, 2007. Although Management provided an analysis showing a reduction in sundry creditors by Kshs.130,572,533, records showing how the reduction came about were

provided for audit. In addition, no satisfactory reason was provided for failure to settle the liabilities.

1.9 Bank Overdraft

The statement of financial position reflects a bank overdraft amounting to Kshs.5,437,359,739 as at 30 June, 2020. The Board had taken a Post Import Finance loan totaling Kshs.4,133,153,127 for purchase of subsidized fertilizer through letters of credit from Kenya Commercial Bank (KCB). Upon maturity, KCB debited the entire loan facility amounting to Kshs.4,133,153,127 that was outstanding to the Board's main bank account on 30 April, 2020 since the Board had defaulted in repayment.

This led to an overdraft balance that was above the authorized limit and which had accrued bank charges in interest and penalties totalling Kshs.581,852,197 as at 30 June, 2020. The principal amount had not been paid as at 30 June, 2020 and continues to accrue interest at 11.5% and a penalty of 10% per annum in addition to the interest rate until the loan is fully settled. Although the Board has engaged the National Treasury and the Ministry of Agriculture, Livestock, Fisheries and Co-operatives to have the funds for the fertilizer subsidy released in order to service the loan, the matter had not been resolved as at 30 June, 2020.

The bank has notified the Board of its intention to enforce the terms of the credit facility which may include attachment of properties and assets that were charged by the bank as collateral for the loan facility. Consequently, the amount of the outstanding bank overdraft as at 30 June, 2020 could not be confirmed.

1.10 Trade Debtors and Prepayments

The statement of financial position reflects trade debtors and prepayments totalling Kshs.558,490,528 after provision for bad and doubtful debts totalling Kshs.988,840,929 was made on the gross balance totalling Kshs.1,547,331,455 as at 30 June, 2020. However, the balance contains the following unsatisfactory matters:

- (i) As similarly reported previously, the balance includes trade debtors totalling Kshs.1,161,752,135. However, included in the balance are debtors totalling Kshs.750,033,616 representing 64.7% of trade debtors that have been outstanding for more than eight (8) years. Although a cumulative bad debts provision amounting to Kshs.988,840,929 has been made in these financial statements, the extent of possible recovery of the debts could not be confirmed as there were no records of effort to recover them.
- (ii) As disclosed in Note 13 to the financial statements, the provision for bad and doubtful debts decreased by Kshs.2,623,480 from Kshs.991,464,409 to Kshs.988,840,929, while the bad debts expense during the year amounted to Kshs.150,000,000. The accumulated provision disclosed in these financial statements has not been reconciled and is not inaccurate.
- (iii) Further, the trade and other receivables gross balance includes Kshs.115,668,007 relating to staff debtors. Included in the staff debtors is Kshs.67,806,259 that has been outstanding for more than eight (8) years.

Examination of documents, however, indicated that the outstanding staff debtors as at 30 June, 2020 amounted to Kshs.110,219,900 in respect of cash loss, imprests and other losses and stock loss. Although Management made a specific provision amounting to Kshs.95,254,155 in respect to the account, the provision did not appear adequate relative to the large long outstanding balance. Management has not explained how the losses occurred and the steps taken by the Board to recover the losses and prevent their recurrence. In view of these issues, I am not able to confirm whether the trade and prepayments net balance totalling Kshs.558,490,526 as at 30 June, 2020 is fairly stated.

- (iv) Note 15 to the financial statements reflects a balance of Kshs.7,237,996,102 (2019-Kshs.7,593,776,111) relating to Government Debtors-Ministry of Agriculture Fertilizer A/c. However, records on the account were not provided for audit and as a result, it was not possible to confirm the accuracy of its balance totalling Kshs.7,237,996 as at 30 June, 2020. In addition, as previously reported, Government Debtors-MOA Fertilizer Account balance of Kshs.7,237,996,102 as at 30 June, 2020 includes brought forward balances totalling Kshs.342,341,936 and Kshs.191,916,638 relating to Strategic Grain Reserve Programme - Old Account and Government of Kenya (GOK) 17 selected depots for old account Famine Relief respectively, both outstanding for over 18 years. There were no records or information provided for audit to indicate progress made in recovery of the debts and as result, their recovery doubtful. However, no provision for bad and doubtful debts has been made in regard to the debts.

1.11 Creditors-Due to the Government on Past Market Interventions

The statement of financial position reflects Kshs.174,063,028 relating to creditors - due to GOK post market intervention as further disclosed in Note 24 to the financial statements. Although Management has disclosed in Note 24 to the financial statements that the balance relates to retained surpluses from 1994/1995 maize intervention and subsequent maize export transactions in 1995/1996 and 1996/1997 and will be offset against other GOK debts which are still under review, no records were provided to confirm Management's assertion. In the circumstance, the validity and accuracy of the Government Market Interventions Account balance totalling Kshs.174,063,026 as at 30 June, 2020 is fairly stated.

1.12 Government Agency Programme (Old Account)

The statement of financial position and as disclosed under Note 25 to the financial statements reflects a balance of Kshs.143,195,039 in respect to Government Agency Account – Operating Results (Old Account). Although Management has disclosed in Note 25 to the financial statements that this figure relates to the balance held on behalf of the Government from cereal sales received by the Board on behalf of the Government prior to the liberalization of marketing of cereals in 1993, no documentary evidence has been provided for verification. In addition, no explanation has been provided why the Board has not remitted this amount to the Government since 1993.

In the circumstances, the accuracy of the accuracy of the Government Agency-Old Account balance of Kshs.143,195,039 as at 30 June, 2020 could not be confirmed.

1.13 Sales Proceeds from GOK Fertilizers

The statement of financial position reflects creditors due to GOK on fertilizer sales totalling Kshs.5,215,013,011, as disclosed in Note 23 to the financial statements. The balance includes sales of subsidized fertilizer amounting to Kshs.752,363,484. However, the sales proceeds were as at 30 June, 2020 held in the Board's fertilizer collection bank account at Kenya Commercial Bank together with other monies received from sales of the Board's own fertilizers. The Board explained that KCB attached the funds held in the fertilizer collection bank account as security for non-payment of the fertilizer and as a result, the Board could not access the funds.

Consequently, the funds were not remitted to the designated bank account at the Central Bank of Kenya.

1.14 Creditors Due to GOK on Strategic Grain Reserve Maize Sales

The statement of financial position reflects creditors due to GOK on SGR maize sales totalling Kshs.4,415,075,082 which includes current year sales totalling Kshs.8,206,018,454 as further disclosed in Note 26 to the financial statements. The balance differs by Kshs.707,444,878 with the sum of Kshs.7,498,573,576 reported in the financial statements of the Strategic Food Reserve Trust Fund for the year ended 30 June, 2020. The difference amounting to Kshs.707,444,878 was not reconciled by the two entities.

In the circumstance, the accuracy of the creditors balance totalling Kshs.4,415,075,082 as at 30 June, 2020 could not be confirmed.

2.0 Decline in Performance

The statement of profit or loss and other comprehensive incomes reflects a significant decline of gross sales by Kshs.2,073,059,109 or 75% from Kshs.2,765,881,725 reported in 2018/2019 financial year to Kshs.692,822,616 in the year under review. The decline resulted in an operating loss amounting to Kshs.1,098,935,685 in the year compared to f Kshs.717,262,072 in the previous year. Management attributed the low revenues to large debts owed by the Government that resulted in shortage of working capital needed to restock trading stock.

However, the Board disclosed bank and cash balances totalling Kshs.3,788,709,213 and bank overdrafts totalling Kshs.5,437,359,739, resulting to net overdraft of Kshs.1,648,650,526.

Consequently, Board may require the support of the National Government and creditors to finance its operations.

Management has not disclosed the measures taken to reverse the unsatisfactory performance of the Board.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Cereals and Produce Board Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Other Matter

1.0 Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects budgeted income and expenditure totalling Kshs.3,287,164,730 and Kshs.1663,761,722 respectively resulting in an income shortfall of. Kshs.1,623,403,008.

The statement further reflects budgeted and actual expenditure totalling Kshs.3,712,137,330 and Kshs.2,714,612,483 respectively resulting in under-expenditure of Kshs.997,524,847.

Management has explained the shortfall to lack of fertilizer for sale and the under-expenditure to lower than expected costs due to low volume of business in the year under review.

2.0 Prior Year Issues

The audit report for the previous year highlighted several issues in relation to balances reflected in the financial statements, lawfulness and effectiveness in use of resources and effectiveness of internal control. Management in the report on progress made in resolving the issues at page 46 of the financial statements has indicated that some of the issues had since been resolved whereas others were still outstanding as at 30 June, 2020. The status of all the issues shall be confirmed after they are discussed by the National Assembly.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

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

Responsibilities of Management and those Charged with Governance

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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


- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve

collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Board not sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Board to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


CPA Nancy Gathunga, CBS
AUDITOR-GENERAL

Nairobi

17 February, 2022

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

XII. NATIONAL CEREALS AND PRODUCE BOARD STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOMES

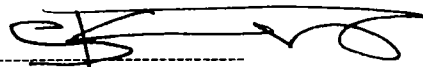
	Note	<u>2020</u> Kshs	<u>2019</u> Kshs
Gross Sales	1	692,822,616	2,765,881,725
Cost of Sales	2	<u>435,454,884</u>	<u>1,885,230,200</u>
Gross Margin		257,367,732	880,651,525
Gross Margin Gain as a % of Gross sales		37%	32%
ADD:			
Other Incomes	3	<u>1,402,422,440</u>	<u>1,126,251,294</u>
TOTAL REVENUES		1,659,790,172	2,006,902,819
OPERATING EXPENSES			
Railway and Road Transport	4	6,663,022	130,760,793
Staff costs and wages	5	978,121,027	975,092,543
Administration expenses	6	350,261,157	302,321,189
Directors expenses	7	16,229,825	17,242,394
Other operating expenses	8	<u>112,492,660</u>	<u>117,223,784</u>
		1,463,767,691	1,542,640,703
Profit before depreciation and bad debts		196,022,481	464,262,115
Deduct:			
Depreciation expense	10	368,816,568	396,928,698
Amortisation expense	11	2,156,166	2,396,024
Bad and doubtful debts	14	<u>150,000,000</u>	<u>197,906,495</u>
		<u>520,972,734</u>	<u>597,231,218</u>
Profit from operations		(324,950,253)	(132,969,102)
Finance costs	9	<u>773,985,432</u>	<u>584,292,969</u>
Profit Before Tax		(1,098,935,685)	(717,262,072)
Income Tax expense		-	-
Net profit after tax		(1,098,935,685)	(717,262,072)
Other comprehensive income			
Gains on disposal of land		-	-
TOTAL COMPREHENSIVE INCOMES FOR THE YEAR		(1,098,935,685)	(717,262,072)

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

XIII. STATEMENT OF FINANCIAL POSITION

	Note	<u>2020</u> Kshs	<u>2019</u> Kshs
ASSETS			
Non- Current Assets			
Property, Plant and Equipment	10	5,703,591,015	6,041,210,862
Intangible Assets	11	<u>2,526,605</u>	<u>3,884,406</u>
Total Non – Current Assets		<u>5,706,117,620</u>	<u>6,045,095,268</u>
CURRENT ASSETS			
Inventories	12	158,099,778	402,684,031
Trade Debtors and Prepayments	13	558,490,528	590,846,770
Government Debtors – New Agency A/c	14	9,025,647,945	9,275,250,160
Government Debtors – MOA Fertiliser A/c	15	7,237,996,102	7,593,776,111
Bank and Cash Balances	16	<u>3,788,709,213</u>	<u>4,070,766,150</u>
Total Current Asset		<u>20,768,943,566</u>	<u>21,933,323,222</u>
TOTAL ASSETS		<u>26,475,061,186</u>	<u>27,978,418,490</u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Capital Fund	17	6,304,142,172	6,304,142,172
Revaluation Reserve	18	9,589,422,793	9,589,422,793
Revenue Reserve	19	<u>(8,667,915,062)</u>	<u>(7,568,979,377)</u>
Capital and Reserves		<u>7,225,649,903</u>	<u>8,324,585,588</u>
CURRENT LIABILITIES			
Bank Overdraft	20	5,437,359,739	544,116,930
Short Term Loan	21	-	4,133,153,127
Creditors and Provisions	22	2,899,939,795	4,164,619,751
Creditors - Due to GOK on fertilizer Sales	23	5,215,013,011	4,462,649,527
Creditors – Due to GOK on past market intervention	24	174,063,028	174,063,028
Government Agency Programme (Old A/c)	25	143,195,039	143,195,039
Creditors – Due to GOK on SGR Maize sales	26	4,415,075,082	5,067,269,912
Taxation	27	<u>964,765,588</u>	<u>964,765,588</u>
Total Current Liabilities		<u>19,249,411,282</u>	<u>19,653,832,902</u>
TOTAL EQUITY AND LIABILITIES		<u>26,475,061,186</u>	<u>27,978,418,490</u>

The financial statements were approved by the Board on _____ 2021 and signed on its behalf by:


CPA, Samuel K. Ndung'u
General Manager Finance & Accounting ICPAK NO 3001


Joseph Kimote
Managing Director


Muteda Iringo
Chairman of the Board

**NATIONAL CEREALS AND FOODS BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

XIV. STATEMENT OF CHANGES IN EQUITY

	Capital Fund KShs	Revaluation reserve KShs	Restated Revenue reserve KShs	Total KShs
At July 1, 2018	6,304,142,172	9,589,422,793	(6,851,717,305)	9,041,847,660
Net Profit for the year			(717,262,072)	(717,262,072)
At June 30, 2019	6,304,142,172	9,589,422,793	(7,568,979,377)	8,324,585,588
At July 1, 2019	6,304,142,172	9,589,422,793	(7,568,979,377)	8,324,585,588
Net Profit for the year			(1,098,935,685)	(1,098,935,685)
At June 30, 2020	6,304,142,172	9,589,422,793	(8,667,915,062)	7,225,649,903

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

XV. STATEMENT OF CASH FLOWS

	Note	2020 Kshs	2019 Kshs
OPERATING ACTIVITIES			
Cash generated from/used in operations	28	<u>(5,147,947,321)</u>	<u>3,127,247,201</u>
Net cash generated from /used in operating activities		<u>(5,147,947,321)</u>	<u>3,127,247,201</u>
INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment	10	<u>(27,352,425)</u>	<u>(27,015,973)</u>
Net increase /(decrease) in cash and cash equivalent (a)		<u>(5,175,299,746)</u>	<u>3,100,231,229</u>
Cash and Cash equivalent at beginning of the year			
Cash at Bank and on Hand	16	4,070,766,150	735,035,231
Bank Overdraft	20	<u>(544,116,930)</u>	<u>(308,617,238)</u>
Total (b)		<u>3,526,649,220</u>	<u>426,417,994</u>
Total (a+b)		<u>(1,648,650,526)</u>	<u>3,526,649,220</u>
Cash and Cash equivalent at end of the year			
Cash at Bank and on Hand	16	3,788,709,213	4,070,766,150
Bank Overdraft	20	<u>(5,437,359,739)</u>	<u>(544,116,930)</u>
		<u>(1,648,650,526)</u>	<u>3,526,649,220</u>

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

**XVI. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDED 30 JUNE 2020**

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% +/-	Ref no.
	<u>2020</u>	<u>2020</u>	<u>2020</u>	<u>2020</u>	<u>2020</u>		
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs		
Gross sales	11,936,188,123	(4,763,876,872)	7,172,311,251	692,822,616	(6,479,488,635)	-90%	A
Less: Cost of sales	<u>9,184,428,704</u>	<u>(3,537,707,007)</u>	<u>5,646,721,697</u>	<u>435,454,884</u>	<u>(5,211,266,813)</u>	-92%	B
Gross margin	2,751,759,419	-1,226,169,865	1,525,589,554	257,367,732	(1,268,221,822)		
Add:					0		
Other Incomes	1,874,638,409	<u>-113,063,233</u>	1,761,575,176	1,402,422,440	(359,152,736)	-20%	C
Total income	4,626,397,828	(1,339,233,098)	3,287,164,730	1,659,790,172	(1,627,374,558)		
Expenses							
Railway & Transport costs	890,346,994	(320,399,978)	569,947,016	6,663,022	(563,283,994)	-99%	D
Staff costs and wages	1,252,048,161	(39,607,337)	1,212,440,824	978,121,027	(234,319,797)	-19%	E
Administrative Expenses	484,187,360	(31,613,802)	452,573,558	366,490,982	(86,082,576)	-19%	F
Other operating expenses	282,616,179	(55,965,276)	226,650,903	112,492,660	(114,158,243)	-50%	G
Provision	770,446,727	(2,156,166)	768,290,561	520,972,734	(247,317,827)	-32%	H
Finance Cost	<u>650,394,376</u>	<u>(168,159,908)</u>	<u>482,234,468</u>	<u>773,985,432</u>	<u>291,750,964</u>	60%	I
Total expenditure	4,330,039,797	(617,902,467)	3,712,137,330	2,758,725,857	(953,411,473)		
Surplus for the Year	<u>296,358,031</u>	<u>(721,330,631)</u>	<u>(424,972,600)</u>	<u>(1,098,935,685)</u>	<u>(673,963,085)</u>		

Explanatory notes on the differences above:

- a) The decrease in gross sales is due to drop in sale of fertilizer
- b) The drop in cost of sales is due to low sales turnover.
- c) The decrease in other incomes is due to decreased commissions on SFR maize.
- d) The transport costs decreased due to low-transportation of fertilizer from the port to various upcountry depots across NCPB network
- e) The staff costs decreased due to non-implementation of CBA, retirements and non-hiring of management trainees.
- f) The decrease in administrative costs is as a result of low maintenance and fumigation costs
- g) Decrease in other operating expenses is due to decreased business activities
- h) Provision for depreciation decreased to due low implementation of capital projects.
- i) Finance costs decreased as a result of repayment of some loans and interest rate cap.

**NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

VII. NOTES TO THE FINANCIAL STATEMENTS

1. General Information

NCPB was established through an Act of Parliament Chapter 338. The Board is wholly owned by the Government of Kenya and is domiciled in Kenya. The Board's principal activity is grain handling and marketing with allied services and facilities as well as distribution of farm inputs. This is in addition to undertaking social functions on behalf of the Government of Kenya on agency basis that relates to procurement, storage, quality maintenance, and distribution/sale of famine relief food commodities as well as SGR stocks.

2. Statement of Compliance and Basis of Preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying NCPB's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 5

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

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

3. Adoption of New and Revised Standards

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2020

Standard/Amendment to a standard	Effective date	Impact
IFRS 16 -Leases	1 st Jan 2019	It introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.
<i>Disclosure Initiative (Amendments to IAS 7: Statement of Cash flows)</i>	1 st Jan 2017	<i>Since the Board is fully owned by the Government, it does not pay out dividend or received dividend from any entity.</i>

(ii) Early adoption of standards

The Board did not early – adopt any new or amended standards in year 2020.

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

4. Summary of Significant Accounting Policies

The principle accounting policies adopted in the preparation of these financial statements are set out below:

a) Revenue recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the Board and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or expected to be received in the ordinary course of the Board's activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the Board's activities as described below.

- i) Revenue from the sale of goods and services is recognised in the year in which the Board delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) Income from services rendered and facilities provided is recognized at the time of rendering and providing such services and facilities
- iii) Rental income is recognized in the income statement as it accrues using the effective lease agreements.
- iv) Other income is recognized as it accrues.

b) Depreciation on Property, Plant and Machinery

Depreciation charge on fixed assets is provided on a straight line basis and is calculated on cost or revaluation at the following rates which are consistent with prior years. Depreciation charge is prorated both in the year of asset purchase and in the year of asset disposal.

Freehold Land	Nil
Leasehold Land	Over the term of the lease
Buildings, Boreholes, Fences and Roads	2.5%
Silos, Cyprus bins, machinery House and Loading Bays	6%
Plant, machinery and Computer Equipment	12.5%
Fumigation Equipment	20%
Motor Vehicles and Drying Equipment	25%
Other Equipment	12.5%

c) Intangible assets

Intangible assets comprise purchased computer software which are capitalized on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful life of the intangible assets from the year that they are available for use, usually over eight years.

d) Inventories

Inventories are stated at the lower of cost and net realizable value on the basis of First In First out principle and a provision for shrinkage computed at a rate of 2.2% of the value of the year's purchases of grains and pulses.

(e) Stocks of consumable stores and Supplies

The accounting procedure for consumable supplies and stores that are centrally purchased is that items are initially coded to respective control accounts for these stocks at the time of procurement

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

and the cost expensed/charged at the time of dispatch to the respective user budget centres. This policy ensures that budget centres are only held responsible for the expenditure directly related to what they have requisitioned and consumed.

(f) Trade and other receivables

Trade and other receivables are recognized at fair values less allowances for any uncollectible amounts. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted. Provision for bad and doubtful has been made on the basis of specific debts and consists of 100% specific provision for some debtors and a general provision of 7.5% on all outstanding trade debts at Balance Sheet date.

g) Cash and cash equivalents

Cash and cash equivalents comprise of cash at bank and cash on hand held in the Board's Cash Offices at Head Office and Depot/Silos and Cash in Transit as at 30th June 2020.

h) Agency fees/Commission

The rates applicable for various services and facilities that were mutually agreed upon the principal (GOK) and the agent (NCPB) have been in force since 12th November 2002 is as follows:

<u>Nature of Service/facility</u>	<u>Rate</u> <u>Kshs/Percentage</u>
i) Storage	4.80 per bag per month
ii) Quality maintenance	5.00 per bag per month
iii) Commission on Purchasing	115.00 per bag
iv) Commission on releases	25.00 per bag
v) Commercial sales commission	9% of sales value
vi) Commission on transport	10% of transport cost
vii) Commission on commodity handling (Direct costs)	10% of handling cost

i) Trade Creditors and other payables

Trade and other payables are non-interest bearing and are carried at amortised cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the Board or not, less any payments made to the suppliers.

j) Retirement benefit obligations

The Board operates a defined Provident Fund Scheme for all its permanent employees on 27th January, 1969. The Board's contributions are charged to the Income Statement in the period in which it relates. The assets of the scheme are held in a separate trustee administered fund, which is funded from contributions from both the Board and the employees.

NCPB also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently 15% while the employee contributes 7.5% of employees basic salary. It is an approved fund under the Income Tax Act and is registered with Retirement Benefits Authority.

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

k) Provision for staff leave pay

Employees' entitlements to annual leave are recognised as they accrue to the employees. A provision is made for the estimated liability for annual leave at the reporting date.

l) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the Board operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

m) Budget information

The original budget for FY 2019-2020 was approved by the National Assembly and subsequently cascaded and the parent ministry communicated the approval on 30th January 2020.

There were no subsequent revisions or additional appropriations in the course of the year.

The Board's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

The variance between the actual and budgeted amounts for each item in the income statement is explained as shown in item XIV.

n) Comparative figures

Where necessary comparative figures for the previous financial year have been included to conform to the required changes in presentation.

p) 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, 2020.

5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Board'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.

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The Board based its assumptions and estimates on parameters available when the 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 Board. 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 Entity
- 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 assets
- Changes in the market in relation to the asset

Provisions

Provisions were raised and management determined an estimate based on the information available

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date.

Provision for bad and doubtful debts has been made on the basis of specific debts and consists of 100% specific provision for some debtors and a general provision of 7.5% of all other outstanding trade debts at the balance sheet date.

Provision for stock shrinkage is computed at a rate of 2.2% of value of the year's purchases.

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. Gross Sales

	<u>2020</u>	<u>2019</u>
	Kshs	Kshs
Local White Maize	82,412,675	1,063,133
Rice	130,606,793	145,956,385
Paddy	0	0
Wheat	0	0
Gunnies	7,294,876	995,497
Maize seed	7,253,200	1,103,580
Beans	7,953,033	150,902,600
Green Grams	1,882,200	9,035,580
Insecticides	74,244	
Fertiliser	455,345,595	2,456,824,950
	<u>692,822,616</u>	<u>2,765,881,725</u>

2. Cost of Sales

Opening stocks	426,730,336	1,679,710,895
Purchase	192,726,398	629,997,952
Milling Costs		-
Provision for stock shrinkage (2.2%)		-
	688,333	2,251,690
Closing Stocks	<u>(184,690,182)</u>	<u>(426,730,337)</u>
Cost of sales	<u>435,454,884</u>	<u>1,885,230,200</u>

3. Other Incomes

Weigh bridge charges	12,878,204	13,161,845
Bagging and handling charges	8,175,481	13,567,722
Cleaning charges	5,218,231	1,157,585
Rental charges	352,084,865	357,641,836
Drying and fumigation	<u>10,786,449</u>	<u>71,059,234</u>
	<u>389,143,229</u>	<u>456,588,222</u>
(b) Agency services		
Gok agency remuneration	746,044,033	635,357,558
Agency commission from inputs		0
	<u>1,135,187,262</u>	<u>1,091,945,779</u>
(c) Sundry income		
Insurance compensation	7,586,301	518,363
Sale of tender documents	1,269,808	32,000
Sale of obsolete materials		0
Other miscellaneous income	34,031,571	10,355,127
Other fee and charges		-
Gain on disposal of fixed assets	<u>1,449,311</u>	<u>0</u>
	<u>44,336,991</u>	<u>10,905,490</u>
(d) investment income		
Interest earned on short term		
Investments(FDR)	222,898,187	<u>23,400,025</u>
TOTAL OTHER INCOMES	<u>1,402,422,440</u>	<u>1,126,251,294</u>

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

4. Railway & Road transport costs	<u>6,663,022</u>	<u>130,760,793</u>
	<u>6,663,022</u>	<u>130,760,793</u>
5. Staff Costs		
	<u>2020</u>	<u>2019</u>
	Kshs	Kshs
Salaries and wages	736,879,112	767,143,975
Board's contribution to PF and SSS	81,982,741	81,231,593
Board's contribution to NSSF	1,886,600	1,920,000
Medical expenses	68,260,557	45,128,194
Leave pay and gratuities	17,069,559	29,755,104
Welfare and training	<u>72,042,458</u>	<u>49,913,677</u>
	<u>978,121,027</u>	<u>975,092,543</u>
 The average number of employees at the end of the year was:		
Permanent Employee – Management	419	519
Permanent Employee - Unionisable	320	302
Temporary and contract Employees	<u>32</u>	<u>38</u>
	<u>771</u>	<u>859</u>
6. Administration expenses		
Entertainment	4,272,175	6,165,373
Advertising	2,913,239	1,730,804
Conservancy, light and water	53,270,711	55,202,209
Consumable stores	4,830,814	1,505,968
Insurance	14,874,432	17,782,712
Land rents & rates and siding charges	18,740,734	27,515,130
Maintenance of machinery, furniture & equipment	71,275,710	42,303,882
Maintenance of building, fences, gates, roads and railway sidings	30,796,476	15,633,610
Postage, telegrams and telephone	12,112,012	12,266,582
Printing and stationery	23,625,007	7,939,022
Security expenses	110,101,979	112,832,888
Subscription & Nafaka Newsletter	1,150,806	554,650
Uniform and protective clothing	2,047,062	778,400
Donations	<u>250,000</u>	<u>109,960</u>
	<u>350,261,157</u>	<u>302,321,189</u>
7. Directors expenses	<u>16,229,825</u>	<u>17,242,394</u>
	<u>366,490,982</u>	
8. Operating Expenses		
Fumigation expenses	8,787,621	1,334,500
Grain dryers operating costs	6,678,287	12,878,663
Commodity handlings costs	6,158,008	4,735,488
Hired transport (Non-commodities)		-
Shows and exhibitions	5,983,660	5,645,567
Travelling and subsistence	44,981,885	67,971,440
Vehicles running costs	15,196,641	17,065,307
Audit fee	2,750,000	2,750,000
Legal and other professional fees	<u>21,956,558</u>	<u>4,842,819</u>
	<u>112,492,660</u>	<u>117,223,784</u>

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

9. Finance Costs

	<u>2020</u> Kshs	<u>2019</u> Kshs
Bank charges	135,110,477	14,288,317
Bank overdraft and Loan interest	<u>638,874,954</u>	<u>570,004,653</u>
	<u>773,985,432</u>	<u>584,292,969</u>

10. Property, Plant and Machinery (KShs) - 2020

2019/2020	Leasehold Land	Fencing Driveways & civil works	Building and Grain Silos	Motor Vehicles	Plant & Machinery & Equipment	WIP	TOTAL
Cost /Valuation							
1/7/2019	943,121,270	422,430,110	9,581,951,496	102,215,981	585,648,851	36,618,713	11,671,986,421
Additions	0	0	0	12,209,628	12,626,727	6,360,365	31,196,720
Disposals	0	0	0	<u>(4,642,660)</u>	0	0	<u>(4,642,660)</u>
At 30/06/2020	<u>943,121,270</u>	<u>422,430,110</u>	<u>9,581,951,495</u>	<u>109,782,950</u>	<u>598,275,578</u>	<u>42,979,079</u>	<u>11,698,540,481</u>
DEPRECIATION							
01/07/2020	184,790,640	148,714,992	4,725,906,628	89,170,047	482,193,251	0	5,630,775,558
Charge for the period	<u>11,806,677</u>	<u>10,541,221</u>	<u>328,627,295</u>	<u>7,710,536</u>	<u>10,130,839</u>	0	<u>368,816,568</u>
On Disposal				<u>(4,642,660)</u>			<u>(4,642,660)</u>
30/06/2020	<u>196,597,316</u>	<u>159,256,213</u>	<u>5,054,533,923</u>	<u>92,237,923</u>	<u>492,324,091</u>	<u>0</u>	<u>5,994,949,466</u>
NET BOOK VALUE	<u>746,523,954</u>	<u>263,173,896</u>	<u>4,527,417,571</u>	<u>17,545,027</u>	<u>105,951,487</u>	<u>42,979,079</u>	<u>5,703,591,015</u>

Property, Plant and Machinery (KShs) - 2019

	Leasehold Land	Fencing Driveways & civil works	Building and Grain Silos	Motor Vehicles	Plant & Machinery & Equipment	WIP	TOTAL
	943,121,270	422,430,110	9,580,330,660	102,215,981	546,145,872	51,414,759	11,645,658,652
	0	0	1,620,836	0	29,514,005	(4,807,072)	26,327,769
	0	0	0	0	<u>9,988,974</u>	<u>(9,988,974)</u>	0
	0	0	0	0	0	0	0
	<u>943,121,270</u>	<u>422,430,110</u>	<u>9,581,951,496</u>	<u>102,215,981</u>	<u>585,648,851</u>	<u>36,618,713</u>	<u>11,671,986,421</u>
	683	139,948,460	4,366,829,346	81,894,841	473,253,536	0	5,233,846,867
	5	8,766,532	359,077,282	7,275,206	8,939,715	0	396,928,691
		0	0	0	0		0
		<u>148,714,992</u>	<u>4,725,906,628</u>	<u>89,170,047</u>	<u>482,193,251</u>	0	<u>5,630,775,558</u>
		<u>273,715,117</u>	<u>4,856,044,866</u>	<u>13,045,935</u>	<u>103,455,600</u>	<u>36,618,713</u>	<u>6,041,210,862</u>

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

11. Intangible Assets

	<u>2020</u> Kshs	<u>2019</u> Kshs
COST		
At July 1 2019	32,694,295	32,006,091
Addition	798,365	688,204
At 30 th June 2020	<u>33,492,660</u>	<u>32,694,295</u>
AMORTISATION		
At July 1 2019	<u>28,809,889</u>	<u>26,413,865</u>
Charge for the year	2,156,166	2,396,024
At 30 th June 2020	<u>30,966,055</u>	<u>28,809,889</u>
Net Book Value at 30th June 2020	<u>2,526,605</u>	<u>3,884,406</u>

12. Inventories

The closing stocks of commodities valued at Kshs 202,213,152 (2018/2019 Kshs 402,684,030) was composed of the following:

	<u>2020</u> Kshs	<u>2019</u> Kshs
(a)Composition of stocks		
Local White maize	0	10,667,655
Beans	974,709	1,947,285
Wheat		0
Castor seeds	640	640
Paddy	73,824,190	140,593,525
Local milled rice	29,941,618	12,916,693
Wimbi	7,880	55,640
Green Grams	9,750	8,802,160
Fertiliser	63,121,414	224,470,331
Packaging bags (Jute/pp)	16,796,811	27,264,234
Insecticides	13,170	12,174
Total	<u>184,690,182</u>	<u>426,730,337</u>
(b)stock of consumables	<u>84,132,446</u>	<u>85,988,212</u>
Total	<u>268,822,628</u>	<u>512,718,549</u>
Less:		
Provision for stock shrinkage (2.2%)	108,440,613	107,752,281
Provision for obsolete consumable stock	2,282,237	2,282,237
Total provision	<u>110,722,850</u>	<u>110,034,518</u>
Total closing stock at year end	<u>158,099,778</u>	<u>402,684,030</u>

13. Trade and Other Receivables

Former Associated Company	160,078	160,078
Debtors for imported Wheat	35,933,464	35,933,464
Trade Debtors	1,161,752,135	1,211,612,815
Staff Debtors	115,668,007	119,676,937
Sundry Debtors and Prepayments	<u>233,817,771</u>	<u>214,927,885</u>
Total	<u>1,547,331,455</u>	<u>1,582,311,179</u>
Less: Provision for bad and doubtful debts (b)	<u>988,840,929</u>	<u>991,464,409</u>
Net Trade and Other receivables	<u>558,490,526</u>	<u>590,846,770</u>

**NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020**

(b) The provision for bad and Doubtful debts
Comprise the following:

Associated Companies	160,077	160,078
Debtors for imported Wheat	35,933,464	35,933,464
Other trade debtors	793,527,186	860,105,028
Staff debtors	95,254,155	56,050,716
Sundry debtors	<u>63,966,051</u>	<u>39,215,121</u>
Total cumulative provision	<u>988,840,934</u>	<u>991,464,408</u>

At June 30, the ageing analysis of the gross trade debtors was as follows:

	<u>2020</u>	<u>2019</u>
	Kshs	Kshs
Less than 30 days		3,214,471
Between 30 and 60 days		6,461,172
Between 61 and 90 days		2,181,560
Between 91 and 120 days		4,125,827
Over 120 days		<u>1,145,769,103</u>
		<u>1,161,752,135</u>

14. Government Debtors – New Agency A/c

The breakdown of amounts outstanding in relation to each activity as well as remittances from Government during the year is summarized here below:

	Cumulative amounts Due KShs	Amounts Received Kshs	Net bal. due 30 th June. 2020 Kshs	Net bal. due 30 th June 2019 Kshs
(a) Strategic Grain Reserve(old A/c)				
Balance B/F	342,341,936	0	342,341,936	342,341,936
Direct expenses for the Period	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>342,341,936</u>	<u>0</u>	<u>342,341,936</u>	<u>342,341,936</u>
(b) Famine Relief Programme				
Balance B/F	(444,279,486)	134,897,385	(579,176,872)	(650,714,641)
Direct expenses for the Period	222,049	0	222,049	325,073
Storage charges	<u>2,165,625</u>	<u>0</u>	<u>2,165,625</u>	<u>206,110,081</u>
Sub Total	<u>(441,891,813)</u>	<u>134,897,385</u>	<u>(576,789,198)</u>	<u>(444,279,487)</u>
© GOK 17selected Depots for Famine Relief				
Balance B/F	191,916,638	0	191,916,638	191,916,638
Direct expenses for the Period	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>191,916,638</u>	<u>0</u>	<u>191,916,638</u>	<u>191,916,638</u>
(d) Strategic Grain Reserve(New A/c)				
Balance B/F	9,813,834,267	0	9,813,834,267	11,716,709,227
Direct expenses for the Period	181,098,469	1,010,481,930	(829,383,461)	(2,636,709,658)
Storage charges	<u>862,291,079</u>	<u>0</u>	<u>862,291,079</u>	<u>733,834,698</u>
Sub Total	<u>10,857,223,815</u>	<u>1,010,481,930</u>	<u>9,846,741,886</u>	<u>9,813,834,267</u>
Total(a+b+c+d)	<u>10,949,590,577</u>	<u>1,145,379,315</u>	<u>9,804,211,262</u>	<u>9,903,813,354</u>
Less sales proceeds from sale of returned gunnies			<u>0</u>	<u>0</u>
			<u>9,804,211,262</u>	<u>9,903,813,354</u>
Provision for bad & doubtful debts			778,563,195	628,563,195
Net outstanding balance -30th June. 2020			<u>9,025,647,945</u>	<u>9,275,250,159</u>

(e) Provision for bad and doubtful debts on GOK agency relates to old debts which has been outstanding for long and is to be written off over a period of four years.

Accumulated provision b/f	628,563,195	478,563,195
Provision for the period	<u>150,000,000</u>	<u>150,000,000</u>
Total provision as at 30th June 2020	<u>778,563,195</u>	<u>628,563,195</u>

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

15. **Government Debtors - MOA Fertilizer A/C**

During the year the Board handled and sold assorted quantities of fertilizers at subsidized price and the outstanding subsidy from GOK is as shown below.

	<u>2020</u> Kshs	<u>2019</u> Kshs
Balance B/F	<u>7,593,776,111</u>	<u>7,548,486,738</u>
Add cost for the year	211,453,721	1,381,593,928
	7,805,229,832	8,930,080,666
Less: Amount received during the year	567,233,730	1,336,304,555
Balance due from GOK	<u>7,237,996,102</u>	<u>7,593,776,111</u>

16. **Bank and Cash Balances**

The amount of Kshs 3,788,709,213 represents bank balances and cash in hand held in the Board's Cash Offices at Head Office and Cash in transit as at 30th June 2020.

	<u>2020</u> Kshs	<u>2019</u> Kshs
Cash at Bank	3,782,071,219	4,037,872,639
Cash in hand	2,834,315	1,339,310
Cash in transit	3,803,677	31,554,200
Total cash at Bank and in hand	<u>3,788,709,213</u>	<u>4,070,766,149</u>

The make – up of bank balances is as follows:

Detailed analysis of the cash and cash equivalents

<u>Financial institution</u>	<u>Account number</u>	<u>KShs</u>	<u>KShs</u>
a) Current account			
KCB, Coop bank, Consolidated bank and Transnational Bank	104 Bank A/Cs	3,782,071,219	4,037,872,639
Cash in transit		3,803,677	31,554,200
cash in hand		2,834,315	1,339,310
Sub- total		<u>3,788,709,213</u>	<u>4,070,766,149</u>
b)bank Overdraft		(5,437,359,739)	(544,116,930)
Total cash and cash equivalents		<u>(1,648,650,526)</u>	<u>3,526,649,219</u>

17. **CAPITAL FUND**

Balance B/F	<u>6,304,142,172</u>	<u>6,304,142,172</u>
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18. **REVALUATION RESERVE**

The revaluation reserve relates to the revaluation of items of property, plant, and equipment. The incorporation of the new values of assets resulted to a net revaluation gain of Kshs 6,889,998,967 and together with brought forward balance increased revaluation reserve to Kshs 9,589,422,793

19. **NET OPERATING PROFIT**

The Board recorded a Net Operating Loss of Kshs. 1,098,935,685 during the period under review on its commercial activities. The Loss has been transferred to the Revenue Reserves Account leaving a debit balance of Kshs. 8,619,830,137 as shown below;

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

	<u>2020</u> Kshs	<u>2019</u> Kshs
Balance B/F	(7,568,979,377)	(6,851,717,305)
Net loss/profit for the period	<u>(1,098,935,685)</u>	<u>(717,262,072)</u>
	<u>(8,667,915,062)</u>	<u>(7,568,979,377)</u>

20. BANK OVERDRAFT

The Board has a standby overdraft facility of Kshs.615 million with the Kenya Commercial Bank Limited to supplement working capital. The balances as at 30th June 2020 were as follows: -

	<u>2020</u> Kshs	<u>2019</u> Kshs
Main Bank A/c	<u>5,437,359,739</u>	<u>544,116,930</u>

21. SHORTTERM LOAN

Further the Board has standing additional short-term loan facility with Kenya Commercial Bank of Kshs 4.1 billion. The amount was transferred to overdraft as follows: -

	<u>2020</u> Kshs	<u>2019</u> Kshs
Balance at beginning of the year	4,133,153,127	4,246,000,000
Domestic borrowings during the year	0	0
Transferred to overdraft facility	<u>(4,133,153,127)</u>	<u>(112,846,873)</u>
Balance at end of the period	<u>0</u>	<u>4,133,153,127</u>

22. Trade Creditors and other Payables

	<u>2020</u> Kshs	<u>2019</u> Kshs
Trade payables	674,768,324	1,744,818,742
Creditors – owing to farmers	1,081,973,618	1,145,051,242
Creditors – staff	10,358,451	11,337,833
Sundry creditors and provisions	<u>1,132,839,401</u>	<u>1,263,411,934</u>
Trade creditors and provisions	<u>2,899,939,795</u>	<u>4,164,619,751</u>

Provision for leave pay		
Balance at beginning of the year	0	0
Additional provision at end of year	0	14,272,584
Leave taken during the year	<u>0</u>	<u>0</u>
Balance at end of the year	<u>0</u>	<u>0</u>

Provision for annual leave pay is based on services rendered by full-time employees up to the end of the year.

23. Creditors - Due to GOK – Fertilizer Sales

Balance B/F	4,462,649,527	3,707,840,910
Sales for the year	<u>752,363,484</u>	<u>754,808,617</u>
	5,215,013,011	4,462,649,527
Less: Remittances	<u>0</u>	<u>0</u>
Amount owed to GOK at year end	<u>5,215,013,011</u>	<u>4,462,649,527</u>

24. Government market Intervention A/c

The balance in this account relates to 1994/1995 maize intervention and subsequent maize export transactions in 1995/95 and 1996/97. As at Balance sheet date there was still a retained

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

surplus of Kshs 174,063,028 to be offset against other GOK debts which are still under review as shown below,

	<u>2020</u> Kshs	<u>2019</u> Kshs
Balance due to GOK as at year end	<u>174,063,028</u>	<u>174,063,028</u>

25. Government Agency Account- operating Results (Old Account)

Prior to liberalization in grain marketing in December 1993 the Board used to receive cereals from overseas under either Food Aid or Loan Programs on behalf of the Government of Kenya. A formal Agency Agreement that is still in force was entered into on 18th January 1990 between the GOK and the Board. The agreement stipulated terms and conditions as well as the accountability procedures to be observed by the Board for these commodities. An Agency Commission of 8% of sales value was charged to meet the Board's management and overhead costs. The balance held on behalf of the Government as at 30th June 2020 remained the same as in previous year.

	<u>2020</u> Kshs	<u>2019</u> Kshs
Balance due to GOK as at year end	<u>143,195,039</u>	<u>143,195,039</u>

26. Creditors – Due to GOK on SGR maize sales

Balance B/F	5,067,269,912	3,224,248,932
Sales for the year	<u>8,206,018,454</u>	<u>1,843,020,980</u>
	13,273,288,366	5,067,269,912
Less: Remittances	<u>(8,858,213,284)</u>	0
Maize collections for transport costs		<u>0</u>
		0
Balance due to Gok at period end	<u>4,415,075,082</u>	<u>5,067,269,912</u>

27. TAXATION

NCPB is a taxable organization and Income Tax Returns have been filed with the Commissioner of Income Tax up to the year of income ended 30th June 2020, which reflected a cumulative taxable loss amounting to Kshs. 8,619,830,137. However, Kshs 964,765,588 represents VAT arrears payable to KRA on provision of agencies services to GOK.

28. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit/ (loss) to
Cash generated from/ (used in) operations

	<u>2020</u> Kshs	<u>2019</u> Kshs
Operating profit	(1,098,935,685)	(717,262,072)
Add back		
Depreciation	368,816,568	396,928,691
Amortisation	2,156,166	2,396,024
Provision for Stock Shrinkage	688,333	2,251,690
Provision for bad and doubtful debts	150,000,000	
Gain on disposal of Fixed asset	<u>(4,642,660)</u>	<u>197,906,495</u>
Operating profit/(loss) before working capital changes	<u>(581,917,278)</u>	<u>(117,779,172)</u>
(Increase)/decrease in Trade debtors and other receivables	487,738,466	1,959,740,801
(Increase)/decrease in inventories	243,895,920	1,230,577,428
Increase/(decrease) in trade and other payables	(1,164,511,302)	167,555,017
Increase/(decrease) in Bank Loan	<u>(4,133,153,127)</u>	<u>(112,846,873)</u>
Cash generated from/(used in) operations	<u>(5,147,947,321)</u>	<u>3,127,247,201</u>

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

(b) Analysis of cash and cash equivalents

Cash at bank	3,782,071,219	4,037,872,639
Cash in hand	2,834,315	1,339,310
Cash in Transit	3,803,677	31,554,200
Bank Overdraft	<u>(5,437,359,739)</u>	<u>(544,116,930)</u>
Cash and cash equivalent at year end	<u>(1,648,650,525)</u>	<u>3,526,649,219</u>

29. **RELATED PARTY DISCLOSURES**

Transactions with related parties:

(a) Sales to related parties:

	<u>2020</u>	<u>2019</u>
	Kshs	Kshs
Sales to government Parastatals	0	0
Sales to county Governments	<u>0</u>	<u>0</u>
Total	<u>0</u>	<u>0</u>

(b) Expenses incurred on behalf of related party:

Payment of salaries and wages	<u>0</u>	<u>975,092,543</u>
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(c) Key Management Compensation

Directors Expenses	16,229,825	17,242,394
Compensation to Key Management staff		<u>25,223,220</u>
Total		<u>42,465,614</u>

30. **CONTINGENT LIABILITIES**

Bank guarantees	19,844,000	4,294,000
Legal claims against the Board	<u>422,717,719</u>	<u>422,717,719</u>
Total	<u>442,561,717</u>	<u>427,011,719</u>

The Board had contingent liabilities amounting to Kshs. 442,561,719 as at 30th June 2020 due to pending disputes with suppliers of goods and services, together with other individuals who have filed court cases against the Board for various reasons.

31. **FINANCIAL RISK MANAGEMENT**

The Board's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The company's financial risk management objectives and policies are detailed below:

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

(i) Credit risk

The Board has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

The receivables that are past due date relate to trade receivables overdue between 30-120 days. The receivables are not impaired and continue to be paid, however a provision for bad and doubtfully debts is provided and is dealt with in the Income statement.

The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board's directors, who have built an appropriate liquidity risk management framework for the management of the Board's short, medium and long-term funding and liquidity management requirements. The Board manages liquidity risk by maintaining adequate reserves (cash and bank balance), reserve borrowing facilities by through continuous monitoring of forecasts and actual cash flows and matching the maturity profiles of financial assets with liabilities.

(iii) Market risk

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

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

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

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

a) Foreign currency risk

The Board has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate. The effect of such transactions are minimal because they are few, however the result is dealt with in the income statement either as a loss or a gain.

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

b) Interest rate risk

Interest rate risk is the risk that the Board's financial condition may be adversely affected as a result of changes in interest rate levels. The company's interest rate risk arises from bank interest rate charge on short borrowing. Since the Board working capital has been significantly eroded, it is forced to rely on expensive short-term borrowing from banks but on negotiated terms. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company's borrowings.

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rate charges and with negotiable terms.

iv) Capital Risk Management

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

	<u>2020</u> Kshs	<u>2019</u> Kshs
Revaluation reserve	9,589,422,793	9,589,422,793
Retained earnings	(8,667,915,062)	(7,568,979,377)
Capital reserve	<u>6,304,142,172</u>	<u>6,304,142,172</u>
Total funds	7,225,649,903	8,324,585,588
Total borrowings	5,437,359,739	4,677,270,057
Less: cash and bank balances	<u>3,788,709,213</u>	<u>4,070,766,149</u>
Net debt/(excess cash and cash equivalents)	<u>(1,648,650,526)</u>	<u>(606,503,908)</u>
Gearing	(23%)	(7%)

32. **INCOPORATION**

The Board is incorporated in Kenya under the Act of Parliament is domiciled in Kenya.

33. **EVENTS AFTER THE REPORTING PERIOD**

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

34. **CURRENCY**

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

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

XVIII. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Ref No.	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>Procurement of 40,000 Metric Tons of Maize</p> <p>As previously reported, The Board entered into a fixed sum contract Kshs. 730,968,000 on 26th November with a company on 26 November 2004 for the supply 40,000 MT of white maize at US Dollars 229 per MT which was not executed. The supplier sought for arbitration with Kenya Chapter, Institute of Chartered Arbitrators and in July the 2009 was awarded US\$ 3,106,000 for breach of contract. On appeal by the Board, the award was increased to US\$ 6,140,859 being equivalent to Kshs. 552,677,382 of which an amount of Kshs. 264,864,285 has been settled leaving a balance of Kshs. 251,499,614. Although the case is pending in court awaiting its hearing and determination, it is not however, possible to</p>	<p>The above matter relates to a contract between NCPB and Erad Suppliers & General Contracts for supply and delivery of 40,000 MT of imported maize for purposes of replenishing Strategic Grain Reserves during the drought during 2001/2002 FY. The Supplier failed to deliver the maize within two weeks as envisaged in the contract. The Supplier thereafter referred the matter to an arbitrator citing breach of contract for failing to open a Letter of Credit (LC). NCPB acted as an agent of the Government in the importation of maize.</p> <p>The Supplier claimed that the Government should have availed funds to NCPB for opening the LC being the principal. The matter was heard by the arbitrator who awarded the supplier USD 3,106,000 together with interest of 12%.</p> <p>The Board appealed against the award at the High Court, however the court declined to set aside the award but finally advised that the Court of Appeal was the only avenue NCPB court use to set aside the award.</p>	John Ngetich Board Secretary	Not resolved	Case is in Court

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

Ref No.	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)
	ascertain the extent of the liability that may arise as a result of the claim in question.	<p>The appeal has been on-going with the application by EACC to be enjoined in the case and to present additional evidence was heard and the court enjoined them but directed that the additional evidence is heard on priority basis.</p> <p>In the event the court of Appeal allows the appeal, the arbitral award will be set aside and directions given by the court on the next course of action. The Board shall therefore apply for restitution for funds confiscated and assets taken during the attachment.</p> <p>If the court dismisses the appeal, the Board shall pay the balance of the decretal sum which will then be passed to the Government. The SFR Board is regularly updated on the matter</p> <p>Current Position</p> <p>The court is the only authority which can finally address the amount payable if any or the amount due to the Board if the award is set aside.</p> <p>We wish to clarify that the Kshs. 314 million was collected through garnishee process where the Board's bankers were compelled to freeze the NCPB's bank accounts and transmit the funds to Erad as directed by the court.</p> <p>The matter came up for hearing on 1st March 2017 for the</p>			

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

Ref No.	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>hearing of the additional evidence by EACC. However two Judges requested to reclude due to relationship with the Respondent and the other having previously acted for the Respondent. The court directed that a new hearing be fixed on priority basis before the bench which allowed the additional evidence to be introduced.</p> <p>It is therefore prudent that all cost be accumulated under Gok agency account until such a time the final verdict is issued.</p>			
2.	<p>Current Liabilities</p> <p>i) Taxation As previously reported in the previous year, included also in the current liabilities balance of Kshs.10,826,182,855 as at 30th June 2016 is an amount of Kshs.964,765,588 in respect of Value added tax arrears payable to Kenya Revenue Authority on provision of agencies services to the government. This figure includes Kshs. 410,092,367 tax that has remained outstanding since 2002. This amount continues to</p>	<p>During their routine tax audits, Kenya Revenue Authority (KRA) indicated that Gok agency services rendered by NCPB are subject to Value Added Tax (VAT) and the SGR Trustees were advised to either seek exemption from Treasury or budgetary provision to pay the tax amount</p> <p>Several attempts were made to seek exemption from Treasury and eventually the National Treasury through letter ref. DFN 415/411/01 dated 7th February 2013 clarified that agency services are subject to VAT and therefore NCPB should comply with the law. The parent ministry was advised to seek budgetary provision to cover the VAT arrears.</p> <p>NCPB complied immediately by incorporating VAT on all</p>	MD	Not resolved	2017/2018FY

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

Ref No.	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>attract penalties and interest that have not been assessed and incorporated in the financial statements.</p>	<p>invoices for agency services with effect from 1st January 2013. However VAT assessment for period 2001 to 2012 which was not charged remained unresolved which stood at Kshs(1.8 billion)(made up of principal and penalties and interest) Subsequently KRA issued an agency notice dated 24th April 2013 to all NCPB bankers to recover the tax arrears component for the period 2010 to 2012 amounting to Kshs. 464,430,643.61. The agency notice was enforced and Kshs. 54,338,277.00 taken from NCPB bank accounts leaving a balance of Kshs.410,092,367. The PS – MOALF intervened to have the bank account unfrozen and further appealed to Treasury to provide funds to cover the tax arrears. The matter was referred to the Strategic Food Reserve Oversight Board who accepted to take the responsibility for the VAT arrears on agency services.</p> <p>The PS-MOALF wrote to KRA on 22nd March 2016 proposing a repayment plan for the principal VAT arrears as approved by SFR Board of KShs. 964.77 million in 3 instalments. However vide their letter dated 6th April 2016, KRA wrote indicating that the payment plan had been rejected indicating that the full settlement should be within a period of twelve months and threatened to effect recovery action.</p> <p>Current Status</p>			

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

Ref No.	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>Following several appeals by NCPB for the matter to be resolved on one hand and efforts by KRA to enforce collection measures on the other hand that resulted into a Notice of distress detaining goods and chattels, the National Assembly Departmental Committee on Agriculture Livestock and Cooperatives took up the matter with a view of finding an amicable solution.</p> <p>The Committee in its sitting on 14th June 2016 directed the CS MOALF and CS National Treasury to meet and find a solution to the matter.</p> <p>They reported back to the Committee on 30th June 2016 where it was agreed that the best option was abandonment of the tax due to difficulty in paying as the budget provision for SFR have reduced substantially.</p> <p>As guided by Commissioner General (KRA), NCPB made a formal request for abandonment vide letter Ref: NCPB/CONF/1/2 dated 5th July 2016 to KRA and the outcome is being awaited. A follow up was made by the PS MOALF vide letter Ref.MOA/LCD/9/4/2/VOL.1V letter dated 6th October 2016.</p> <p>Following the above development where the SGR Board</p>	John Gichuru Finance	Not Resolved	30/06/2018

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

Ref No.	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>ii) Trade Creditors – Kshs 443,536,381</p> <p>Similarly as previously reported, the creditors and provisions balance of Kshs. 6,753,703,604 as disclosed under Note 13 to the financial statements includes an amount of Kshs. 202,291,356 relating to the trade creditors that have been outstanding since July 2012. No satisfactory reason has been given for the failure to settle the liabilities.</p>	<p>owned up the tax responsibility and the subsequent resolution by the National Assembly Departmental Committees on Agriculture and Co-operatives for abandonment, the entire tax amount will be reversed from NCPB books of account once the approval is granted.</p> <p>These creditors are arising from trading activities and are being reconciled in order to confirm those that are payable and appropriate action taken.</p>	<p>Manager</p>		
	<p>iii) Outstanding payments and receipts in bank statement</p> <p>Further the statement of financial position reflects an amount of Kshs. 299,070,750 under Bank Overdraft.</p>	<p>The two amounts are entries in the bank statements which are foreign and whose details the bank has promised to provide. These amounts are still outstanding and has been confirmed by KCB that the matter is receiving attention and that the investigations are still ongoing as per letter Dated 6th March 2017.</p>	<p>Cornel Ngelechey</p>	<p>resolved</p>	<p>30/06/2017</p>

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

Ref No.	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)								
3.1	<p>A review of bank reconciliation statement for the account maintained at KCB KENCOM Branch A/C No. 1107-165-679 revealed amounts of Kshs. 4,169,757 and Kshs. 1,490,672 described as payments in bank not in cash book and receipts in the bank not in cash book respectively, that have been outstanding since June 2015. No explanation has been provided for the amounts. Consequently, the accuracy of the overdraft amount of Kshs. 299,940,489 as at 30th June 2016 cannot be confirmed.</p> <p>Debtors and Prepayments</p> <p>The Debtors and prepayments balance of Kshs. 545,036,971 as disclosed under Note 6 to the Financial statement includes trade debtor balances totaling Kshs. 753,589,267 representing 72% of trade debtors that have been outstanding for more than four (4) years. Although a cumulative bad</p>	<p>We wish to clarify that the amount of Kshs. 987,193,951.00 indicated as older than four years was for 30th June 2015. As at 30th June 2016 the balance outstanding had reduced to Kshs. 753,589,267.00 as summarized below:-</p> <table border="1"> <thead> <tr> <th>CATEGORY</th> <th>AMOUNT (KSHS) 30/06/2015</th> <th>AMOUNT (KSHS) 30/06/2016</th> <th>MANAGEMENT ACTION</th> </tr> </thead> <tbody> <tr> <td>Debts recommended</td> <td>628,084,650</td> <td>628,084,650</td> <td>Board's approval for</td> </tr> </tbody> </table>	CATEGORY	AMOUNT (KSHS) 30/06/2015	AMOUNT (KSHS) 30/06/2016	MANAGEMENT ACTION	Debts recommended	628,084,650	628,084,650	Board's approval for	John Gichuru Finance Manager	Not resolved	30/06/2017
CATEGORY	AMOUNT (KSHS) 30/06/2015	AMOUNT (KSHS) 30/06/2016	MANAGEMENT ACTION										
Debts recommended	628,084,650	628,084,650	Board's approval for										

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

Ref No.	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)																	
	debts provision of Kshs. 943,557,914 has been provided for in the financial statements, it has not been possible to confirm whether and if so, when the Board will be able to recover the amounts. No action appear to have been taken to ensure recovery of the debts.	<table border="1"> <tr> <td>for write off</td> <td></td> <td>write off</td> </tr> <tr> <td>Debts Under Litigation</td> <td>56,934,695</td> <td>Cases in Court</td> </tr> <tr> <td>Collectable Debts</td> <td>302,174,606</td> <td>56,934,695</td> </tr> <tr> <td>Total</td> <td>987,193,951</td> <td>68,569,922</td> </tr> <tr> <td></td> <td></td> <td>The balance is being pursued</td> </tr> <tr> <td></td> <td></td> <td>753,589,267</td> </tr> </table> <p>The management will be presenting recommendations for write off to the Board Members for approval once the write-off policy is approved.</p> <p>That notwithstanding, NCPB has vigorously been pursuing payments of debts including taking legal action against defaulters and currently cases involving Kshs.56.9 million are under litigation. Goods and properties for other defaulters especially for rental arrears have been confiscated and will be sold to defray outstanding rental arrears.</p> <p>However as a prudent measure, NCPB has provided Kshs.943 million as provision for doubtful debts.</p>	for write off		write off	Debts Under Litigation	56,934,695	Cases in Court	Collectable Debts	302,174,606	56,934,695	Total	987,193,951	68,569,922			The balance is being pursued			753,589,267		
for write off		write off																				
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Total	987,193,951	68,569,922																				
		The balance is being pursued																				
		753,589,267																				
3.2	Government Debtors Agency As previously reported, Government Agency Account balance of Kshs. 2,961,873,689 as at																					

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

Ref No.	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)								
	30 th June 2016 still includes brought forward figures of Kshs. 342,341,936 and Kshs. 191,916,638 relating to Strategic Grain Reserve programme - old account and GOK 17 selected depots for old account Famine Relief respectively, both of which have remained unpaid for over 17 years. It has not been possible to confirm whether and if so, the Board will be able to recover the amounts. No provision for bad debts has been made in this regard.	<p>The outstanding debts are old debts amounting to Kshs.534.26 million as shown below:-</p> <table border="1"> <thead> <tr> <th>Old Debts</th> <th>Kshs</th> </tr> </thead> <tbody> <tr> <td>Cost of Reserved Capacity & Wheat Market Intervention Account on SGR</td> <td>342,341,936</td> </tr> <tr> <td>17 G.O.K Depots reserved for Famine Relief Programme</td> <td>191,916,638</td> </tr> <tr> <td>Total</td> <td>534,258,574</td> </tr> </tbody> </table> <p>A Committee was constituted comprising officer from MOALF, MOD&P, Treasury and NCPB who went through all NCPB claim. However the final report was not issued to allow implementation of the recommendations.</p> <p>The matter will be finalized once a committee to relook at the claims is reconstituted. However as a prudent measure the management has provided Kshs 280 million as provision for doubtful debts.</p>	Old Debts	Kshs	Cost of Reserved Capacity & Wheat Market Intervention Account on SGR	342,341,936	17 G.O.K Depots reserved for Famine Relief Programme	191,916,638	Total	534,258,574	Cornel Ngelechey GM, F&P	Not Resolved	30/06/2018
Old Debts	Kshs												
Cost of Reserved Capacity & Wheat Market Intervention Account on SGR	342,341,936												
17 G.O.K Depots reserved for Famine Relief Programme	191,916,638												
Total	534,258,574												
3.3	Canon insurance Arbitration The statement of financial position's debtors and prepayments balance of Kshs. 545,036,971 includes an amount of kshs. 20,354,729 being a	4.4 Canon Insurance Arbitration The Board contracted Afgri (Pty) Limited of South Africa on 8 th August, 2008 for the supply of 60,000± 12% metric tons to be shipped on or before 15 th November, 2008 in shiploads of 20,000 metric ton. The 1 st and 2 nd ships arrived safely without any		Resolved									

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

Ref No.	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>deposit for a court case between M/S Afgri Trading (PTY) Limited Vs Board. The deposit had been occasioned by a suit between Cannon Assurance Limited and Afgri Trading Limited. Examination of documents available revealed that the matter arose as a result of an award in 2008 to Afgri Trading Limited to supply 60,000MT of white maize. During delivery, on 20th November 2008, the Board was informed of an explosion on the vessel carrying the maize whereby 6,350MT were damaged and declared unfit for human consumption Limited. The maize had been insured against marine perils by Cannon Assurance Ltd. The Board therefore claimed for compensation of damaged maize for Kshs. 217 million shillings which was paid. Further, examination of documents revealed that the insurance company after compensating the Board instituted legal proceedings against the vessel which resulted in</p>	<p>incident. However the Board was informed by the supplier that there had been an explosion on the ship transporting the 3rd consignment.</p> <p>The Ship was arrested by Cannon Assurance Company upon arriving at the port of Mombasa and thus accrued demurrage of USD 211,359.18 by the time it was allowed to sail away after issuing a suitable bank guarantee.</p> <p>The NCPB then claimed from and was paid a sum of Kshs. However, without the knowledge of NCPB the supplier commenced arbitration process in London against M/s. Afgri (Pty) Limited in exercise of their right of subrogation. The Arbitration was instituted in NCPB's name who was the policy holder, while Afgri (Pty) Limited also filed a counterclaim of USD 211,359.18. Cannon Assurance abandoned the case when they realized that they had sued the wrong party and Afgri were awarded their counterclaim.</p> <p>When the arbitration process was abandoned, the counter claim for USD 211,359.18 was left undefended and therefore the arbitrator awarded Afgri the demurrage claim. The Board was thereafter served with the arbitral award for USD 211,359.18 plus interest, arbitration cost £4,656 and taxed cost kshs. 590,345.</p> <p>The arbitral award was domesticated in Kenya and a decree was issued dated 20th May 2013. NCPB brought the matter to</p>			

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

Ref No.	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>detaining the vessel that had transported the maize. The detention of the vessel led to accumulation of demurrage charges totalling to USD 211,359. This was followed up by the insurer (Canon Insurance) instituting arbitration proceedings without consulting the Board. The ruling was made in favour of Afgri Trading (PTY) Ltd and the claim of USD 211,359, 4% per annum interest, Kshs. 4,656 cost of arbitration and Kshs. 590,345 taxed bill. This has since been paid by the Board to Afgri Trading PTY Limited. It is not clear why these costs were incurred by the Board since the Board did not instruct the insurance company to sue and detain the vessel. Consequently, the propriety of the cost of Kshs. 20,354,729 incurred by the Board as compensation to Afgri Trading (PTY) Limited cannot be confirmed.</p>	<p>the attention of Cannon Assurance who declined to take up the payment and NCPB was therefore forced to settle the claim to avert the proclaimed assets being attached and sold by auctioneers. NCPB brought the matter to the attention of the regulator for actions considered inappropriate by Canon Assurance. They are yet to respond despite several reminders. The Board has since filed a suit against Cannon Assurance for the recovery of Kshs. 20,354,729 as per the attached court pleadings.</p> <p>With the auctioneer having proclaimed and attached NCPB's assets the only recourse available was to settle the judgement award and pursue Canon Assurance for the restitution of the award and any attendant costs.</p> <p>The alternative for NCPB was to disregard the court orders and have the assets proclaimed sold and the management cited for contempt of court.</p> <p>Current Position</p> <p>The Ship owner has proposed a commercial settlement for the parties to be paid and the bank guarantee be released without admission of liability.</p> <p>The amount has since been settled at KShs.24 million inclusive of legal charges</p>			

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

Ref No.	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)
4.1	<p>Storage Facilities As previously reported, and as disclosed under Note 5 to the financial statements property, plant and equipment balance of Kshs. 7,054,477,805 602) as at 30th June 2016 still includes fifty five (55) donor funded storage facilities whose ownership has not been clarified. Although in its sitting on 11th August 1998, the Public Investment Committee directed both the parent Ministry and Treasury to look into the matter with a view to formerly transferring the facilities to the Board, no progress appears to have been recorded as at the date of this report.</p>	<p>4.1 Storage Facilities It is true that included in the Fixed Asset Register of the Board are fifty five (55) donor funded storage facilities which have not been formally transferred to the Board. As stated in our previous responses, the issue of transfer of fifty (55) donor storage facilities was to be addressed as part of asset divestiture programme. However, the asset divestiture and review of legal framework are the two pending commercialization reform actions, which were left outstanding in previous restructuring programme. The Board has been following this matter with the Government with a reminder done vide letters Ref: NCPB/CONF/1/19 dated 21st February 2017 and 29th November 2016. The National Treasury had in their letter Ref: ZZ 40/64/011 dated 20th December 2013 sought to know whether vesting orders had been issued by the Government being the legal instrument for transfer of assets to the Board. The National Treasury further noted that the Board was undergoing restructuring and the preliminary proposal indicated that it may be split into three entities meaning that the Board will not exist in its current form. It therefore recommended that the transfer of the storage facilities be held in abeyance until such time that it is clear to which entity the facilities will be transferred to.</p>			

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

Ref No.	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>Current Status NCPB has since followed up with the MOALF seeking update on the current status of issuance of vesting orders for the 55 donor funded projects. This has been done vide letter ref: NCPB/CONF/1/9 dated 29th November 2016 and 21st February 2017 respectively. Following a meeting held at the Treasury on 1st March 2017 between National Treasury officers and NCPB to discuss this matter, additional information and documents were sought and have since been submitted vide letter ref: NCPB/CONF/1/9 dated 1st March 2017 and 31st March 2017 respectively (attached as Annex XIII(a) & XIII(b)). We are awaiting for feedback from National Treasury.</p>													
4.2	<p>Land As previously reported, the property, plant and equipment figure of Kshs. 7,054,477,805 also includes thirty seven (37) parcels of land that have been costed at Kshs.54,383,887 that do have title deeds. Information available, indicates that some of the parcels are leased from Kenya Railways Corporation. The above situation is indicative of significant impairment on some of</p>	<p>There are thirty seven (37) plots whose title documents have not been acquired by the Board. The matrix below is a summary of the current status of title acquisition for the thirty seven (37) plots:-</p> <table border="1" data-bbox="1070 723 1313 1391"> <thead> <tr> <th>SUMMARY</th> <th>CURRENT STATUS</th> </tr> </thead> <tbody> <tr> <td>A. Plots Contracted to Surveyors</td> <td>30</td> </tr> <tr> <td>B. Plots Under Kenya Railways</td> <td>5</td> </tr> <tr> <td>C. Plots With Lands Registrar</td> <td>2</td> </tr> <tr> <td>Total Plots</td> <td>37</td> </tr> </tbody> </table>	SUMMARY	CURRENT STATUS	A. Plots Contracted to Surveyors	30	B. Plots Under Kenya Railways	5	C. Plots With Lands Registrar	2	Total Plots	37	John Ngetich Board Secretary	Not Resolved	30/06/2019
SUMMARY	CURRENT STATUS														
A. Plots Contracted to Surveyors	30														
B. Plots Under Kenya Railways	5														
C. Plots With Lands Registrar	2														
Total Plots	37														

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

Ref No.	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>the properties. Consequently it is not possible to ascertain the accuracy of property, plant and equipment balance of Kshs. 7,054,477,805 reflected in the financial statements.</p>	<p>The details are specified below:-</p> <p>a) Plots Contracted to Surveyors</p> <p>The Thirty (30) parcels of land contracted to five surveyors for processing of title deeds, are in various stages of title acquisition</p> <p>b) Land Under Kenya Railways Corporation – 5 plots</p> <p>The five plots under Kenya Railways Corporation are awaiting the completion of Survey and Title Deed preparation process which the organization is currently undertaking, after which they will prepare Long Term Leases for NCPB for registration at the respective Land Registrars.</p> <p>This is in accordance to letter ref. GMB/LS/OP.1 Vol. IV dated 17th September 2013, and letter ref. GMB/LS/OP. 1 Vol. IV dated 26th November 2013,</p> <p>c) Plots with the Land Registrar – 2 Plots</p> <p>There following two parcels of Land whose files are with the Land Registrar – Nairobi are in the process of registration/finalization:-</p>			

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

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		<ol style="list-style-type: none"> 1. Mokowe LR. 12852/3 2. Muharoni Township/180 			
5.	<p>Staff Costs and Wages The staff costs and wages figure of Kshs. 980,064,335 as disclosed in Note 25 to the financial statements include an amount of Kshs. 6,250,848 in respect of acting allowances paid to employees for periods exceeding six months, contrary to public Service Commission Human Resources Policies and Procedures Manual and the Board's human Resource Policy. The Board is therefore in breach of Public Service Commission human Resource policies and its own Human Resource Policy.</p>	<p>It is true that a number of employees have been working in Acting Capacity for more than recommended Government regulation and NCPB's Human Resource Policy of six months.</p> <p>The Board has been undergoing a restructuring process for the last seven years. Decision to fill positions for senior Managers was deferred; hence, the extended acting appointments.</p> <p>We would like to confirm that the organizational design which was part of the restructuring has now been done and the revised structure has been sent to the Ministry of Agriculture Livestock and Fisheries (MOALF) for concurrency after being approved by the National Cereals and Produce Board of Directors.</p> <p>The Board of Directors has also approved confirmation of officers acting in key positions subject to the Board obtaining the necessary approvals and concurrencies from relevant government bodies.</p>	Evans Wasike	Not resolved	30/06/2018
6.	Operating Stock		Cornel Ngelechey	Not resolved	30/06/2018

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2020

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	<p>Note 1(e) to the financial statements states that closing stocks have been valued on the basis of first in first out (FIFO) principle, applying the lower of the cost and net realizable value and a provision of stock shortage computed at a rate of 2.2% of the value of the year's purchases. A review of the stock taking documents however revealed that stocks have been valued at an average price. Under the circumstance, the accuracy of the operating stocks figure of kshs. 910,243,950 as at 30th June 2016 as reflected in the financial statements cannot be ascertained.</p>	<p>We wish to clarify that the closing stock is valued at the end year on the basis of First-in -First out (FIFO) and not weighted average cost per product. Attached is the stock movement and valuation. The title in the initial schedule submitted for audit was inadvertently indicated as weighted average and has since been corrected.</p> <p>As per NCPB policy on valuation a provision of shrinkage of 2.2% of the value of purchase of pulses was made.</p> <p>The stock valuation therefore was as per note 1(e) and NCPB policy The same will be resolved during next audit review.</p>	GM, F&P		
7.	<p>Finance Costs The statement of financial performance as at 30th June 2016 and as disclosed under Note 25 to the financial statements reflects finance costs totaling Kshs. 147,846,887. Included in this figure is</p>	<p>The total Interest on overdraft and interest on loan was kshs 227,879,283.70 out of which KShs. 147,574,229.30 pertain to loan on fertilizer PIF facility which was paid by MOALF together with the fertilizer subsidy leaving a balance of KShs.80,305,054.40 and together with borrowing commitment fee of KShs. 14,503,174.90 give a total of KShs. 94,808,229.30 as reported in the annual report. The same will be resolved during next audit review.</p>	Cornel Ngelechey GM, F&P	Not resolved	30/06/2018

NATIONAL CEREALS AND PRODUCE BOARD
 ANNUAL REPORT AND FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30TH JUNE 2020

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	<p>Kshs. 94,808,230 in respect of bank overdraft and loan interest. However, documents available shows that the Board incurred Kshs. 120,172,194 as bank overdraft and loan interest during the period under review resulting to unreconciled difference of Kshs. 25,363,964. It is not possible under the circumstances to confirm whether the finance costs figure of kshs. 147,846,887 as at 30th June 2016 is fairly stated.</p>				

Managing Director

Chairman of the Board

Date.....

Date.....

**NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

XIX. APPENDIX 2: INTER-ENTITY TRANSFERS

Break down of Transfers from the State Department of Agriculture and Devolution and Planning FY 18/19				
Date	Received From	Receipt No.	Amount (KShs)	The purpose and FY to which the amounts relate
13-11-18	MOALF	52A4208049	978,086,217.55	Purchase of SFR Maize
14-11-18	MOALF	52A4208511	1,326,000,000.00	Purchase of SFR Maize
14-11-18	MOALF	52A4208525	368,733,172.30	Purchase of SFR Maize
20-12-18	MOALF	52A4226926	932,670,330.40	Purchase of SFR Maize
15-02-19	MOALF	52A4240167	69,077,512.00	Transport Cost
05-03-19	MOALF	52A4245902	200,828,332.00	Purchase of SFR Maize
26-03-19	MOALF	52A4252578	296,102,678.45	Purchase of SFR Maize
10-04-19	MOALF	52A4260433	147,964,922.35	Purchase of SFR Maize
12-04-19	MOALF	52A4260477	152,606,380.45	Purchase of SFR Maize
30-05-19	MOALF	52A4283672	175,000,000.00	Purchase of SFR Maize
30-05-19	MOALF	52A4283681	238,584,985.60	Purchase of SFR Maize
28-06-19	MOALF	52A4299248	215,925,385.10	Purchase of SFR Maize
15-02-19	MOD& ASAL	52A4240171	109,998,720.00	Purchase of 57,291 Bags of White Maize
15-02-19	MOD& ASAL	52A4240175	30,720,000.00	Purchase of 16,000 Bags of White Maize
26-06-19	MOD& ASAL	52A4299255	31,200,000.00	Purchase of 30,000 Bags of White Maize
28-06-19	MOD& ASAL	52A4299239	28,080,000.00	Purchase of 27,000 Bags of White Maize
		Total	5,301,578,636.20	

The above amounts have been communicated to and reconciled with the respective Ministries

Finance Manager
NCPB

Sign

Head of Accounting Unit
Ministry of Agriculture

Sign.....

Head of Accounting Unit
Ministry of Devolution and
National Planning

Sign.....!