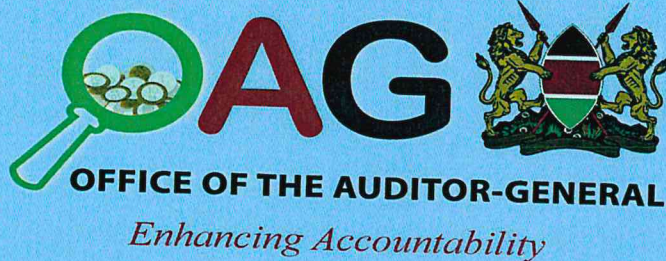



REPUBLIC OF KENYA



REPORT

 THE NATIONAL ASSEMBLY PAPERS LAID	
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THE AUDITOR-GENERAL

ON

**NATIONAL CEREALS AND PRODUCE
BOARD**

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



NATIONAL CEREALS AND PRODUCE BOARD

Leaders in Grain Management

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2019

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 2019

Table of Contents

PAGE

I. CORPORATE INFORMATION	3
II. THE BOARD OF DIRECTORS	5
III. MANAGEMENT TEAM	8
IV. CHAIRMAN'S STATEMENT.....	11
V. REPORT OF THE MANAGING DIRECTOR.....	13
VI. CORPORATE GOVERNANCE STATEMENT.....	15
VII. MANAGEMENT DISCUSSION AND ANALYSIS	19
VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT	21
IX. REPORT OF THE DIRECTORS	22
X. STATEMENT OF DIRECTORS' RESPONSIBILITIES	23
XI. REPORT OF THE INDEPENDENT AUDITORS ON THE ENTITY (NCPB).....	24
XII. STATEMENT OF COMPREHENSIVE INCOME	25
XIII. STATEMENT OF FINANCIAL POSITION	26
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 2019

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, OGW, EBS, CBS | - Chairman (Appointed on 28 th March 2018) |
| 2. Mr. Albin Sang | - Ag. Managing Director (Appointed on 23 rd May 2018) |
| 3. Mr. Joseph Muna Kimote | - Managing Director (Appointed on 24 th June 2019) |
| 4. Eunice Wanjiru Kamau Karanja | - Member (Appointed 14 th December 2018) |
| 5. David Wafula Wekesa Lazaro | - Member (Appointed 6 th June 2018) |
| 6. Mr. Silas Magut | - Member (Appointed on 2 nd October 2015) |
| 7. Mr. Nick Hutchinson | - Member (Appointed on 2 nd October 2015) |
| 8. Dr. Francis Gichuki | - Member (Appointed on 8 th August 2016) |
| 9. Mr. Vincent M. Ambutsi | - Alternate to PS, State Department of Special programmes |
| 10. Mr. David Ole Shege | - Alternate Director to the Permanent Secretary
National Treasury |
| 11. Mr. Philip T Makheti | - Alternate Director to the Permanent Secretary
Ministry of Agriculture, Livestock and Fisheries |

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

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

Independent Auditors

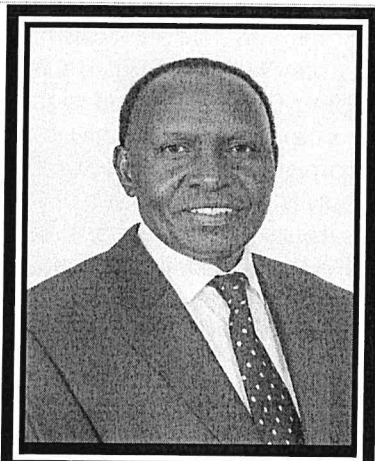
Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
Nairobi, Kenya

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 2019

II. THE BOARD OF DIRECTORS

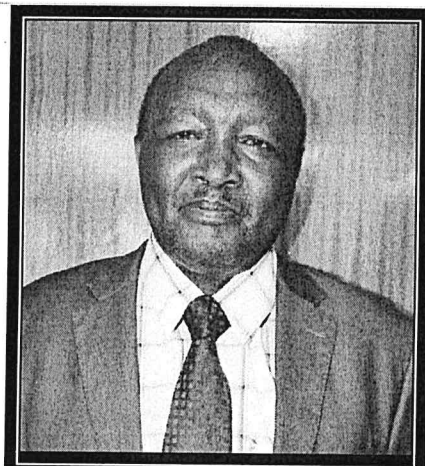


Mutea Iringo, Chairman, OGW, EBS, CBS, NDC (K)

Born in 1961 was appointed Chairman on 28th March 2018. 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.



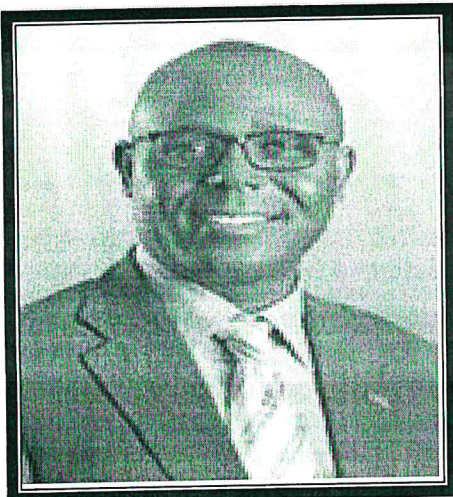
Albin Sang, Ag. Managing Director (Appointed on 23rd May 2018)

Albin Ruto Sang holds a Master's Degree in Management of Agricultural Knowledge Systems from the Wageningen Agricultural University (currently Wageningen University and Research) and a Bachelor's degree in Agriculture from the University of Nairobi.

He joined the Civil service in 1983 as a Livestock Production Officer and was later appointed as a Manager of the National Dairy Development Project funded by the Royal Netherlands Government. He worked as a Project Manager for National Dairy Development Project, then as a Senior Deputy Director of Livestock Production in charge of Livestock Research Management.

He is a Board Member of Kenya Forum for Agricultural Advisory Services (KEFAAS) and has been a technical representative of the Department of Livestock on East Africa Community Matters. He has undergone trainings in agriculture and management from different universities and other institutions like University of Colorado; Denver; Egerton University, and Kenya's school of Government.

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019



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.



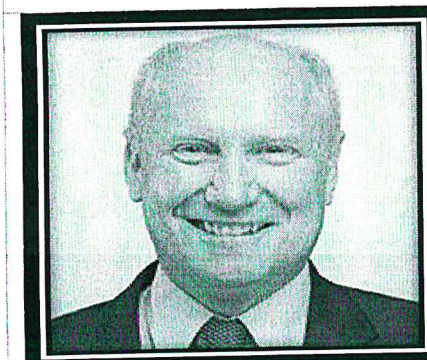
Eunice Wanjiru Kamau Karanja

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.



David Wafula Wekesa Lazaro

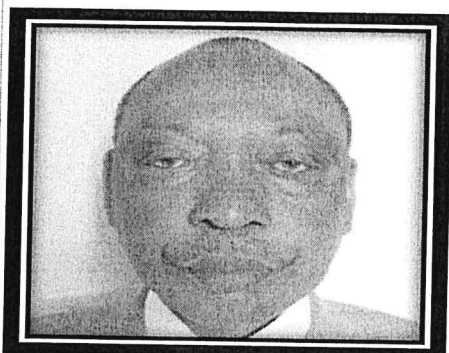
Born 1961, Hon. David Wafula Wekesa Lazaro is an immediate former member of parliament Saboti constituency where he served in various house committees including: Committee on appointments, Committee on Defence and Foreign relations, Select committee on National Government Constituency Development Fund (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



Mr. Nicholas C. Hutchinson, Board Member

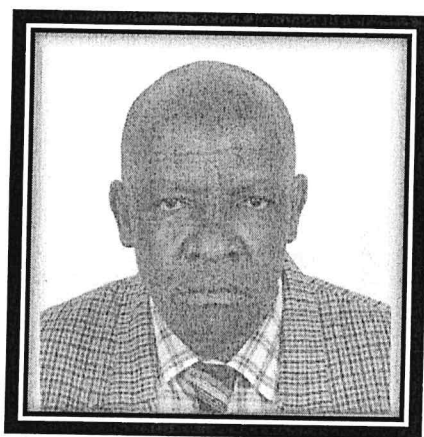
Born 1950, has extensive business management experience having previously worked in East Africa (Monsanto Company), Europe, North America and South Asia. He is currently the Managing Director of Unga Group Limited and a director at Kisima Farm Limited and Sunpower Products Limited as well as Chairman of Miller Association of Kenya. Holds a BsC Degree (Hons) from the University of London

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019



Dr. Francis Gichuki, Board Member

Born 1950, an agricultural and irrigation engineer. He has researched and specialized in soil and water engineering (Irrigation, drainage, water harvesting and soil /water conservation). Has taught at the University of Nairobi for many years. Currently the leader of Integrated Basin Water Management Systems theme of the Challenge Programme on Water and Food. (www.waterforfood.org) Holds a PhD from the Utah State University, USA.



Phillip T. Makheti, Board Member (Alternate to PS, State Department of Agriculture)

Born 1959, A career civil servant with over 30 years' experience, has served in different capacities from a lecturer at Sangalo Institute of Science and Technology rising to Ag. Deputy Director, Agriculture Marketing and Agricultural Advisory Services Division in the Ministry of Agriculture Livestock and Fisheries. Holds a Master of Science Degree in Agriculture and Rural Development and a Bachelor of Arts degree from Kenya Methodist University and the University of Nairobi respectively.



Vincent Matioli Ambutsi, Board Member (Alternate to PS, State Department of Special Programmes)

Born 1966, He has over 22 years' experience in Public Administration and Disaster Risk Management. He began his career as a district officer and went on to become the Under Secretary in the Ministry of Special Programmes, where he is currently the chair of the National Disaster Risk Management Strategy. He also lectures at the National Defence College on disaster related courses. He holds a Master in Public Administration from Moi University and a Bachelor of Arts degree from the University of Nairobi. He was appointed on 5th September 2016.



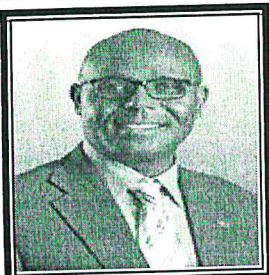
Mr. David Oleshege, Board Member Representing the National Treasury

A career administrator with vast experience in management. He began as a district officer and rose through the ranks to become a County Commissioner working in different parts of the country. He holds a Master of Arts and Bachelor of Arts degrees respectively.

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

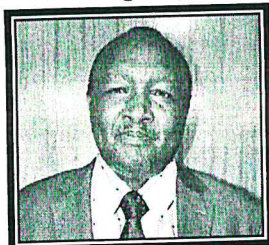
III. LEADERSHIP MANAGEMENT TEAM

MR. JOSEPH MUNA KIMOTE, 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.

Albin Sang, Ag. Managing Director (Appointed on 23rd May 2018)



Albin Ruto Sang holds a Master's Degree in Management of Agricultural Knowledge Systems from the Wageningen Agricultural University (currently Wageningen University and Research) and a Bachelor's degree in Agriculture from the University of Nairobi. He joined the Civil service in 1983 as a Livestock Production Officer and was later appointed as a Manager of the National Dairy Development Project funded by the Royal Netherlands Government. He worked as a Project Manager for National Dairy Development Project, then as a Senior Deputy Director of Livestock Production in charge of Livestock Research Management. He is a Board Member of Kenya Forum for Agricultural Advisory Services (KEFAAS) and has been a technical representative of the Department of Livestock on East Africa Community Matters. He has undergone trainings in agriculture and management from different universities.

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



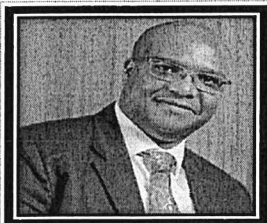
Mr. Ndung'u is a holder of a Master's degree in Business Management (Finance) from the University of Nairobi, and a Bcom graduate of Mangalore University, India. He has a wealth of experience in financial management and accountancy gained from serving both in public and private sectors. He has worked 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 2019



John K. Ngetich, Board Secretary

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 2019

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	Ag. Board Secretary
5	Noah K. Koskei	Corporate Planning Manager
6	Bernard K. Yegon	Manager, Risk and Compliance
7	Evans S. Wasike	Ag. Human Resource Manager
8	Nelson Waswa Sawenja	Procurement Manager
9	Ambrose Njoroge Mutua	Ag. Internal Audit Manager
10	Jones M. Kanyaa	Ag. Operations Manager
11	Titus Kiplimo Maiyo	Ag. Corporate Affairs Manager
12	Aziz Musa Ngare	Ag. Information & Communications Technology Manager
13	Ernest M. Ogwora	Manager, Monitoring and Evaluation
14	Jane Chebore Korir	Ag. Administration Manager
15	John M. Gichuru	Ag. Finance Manager
16	Muoka Mwangi	Ag. Technical Manager
17	Michael Karanja Wainaina	Ag. Security Manager
18	Erastus K. Sumaili	Ag. Chief Accountant
19	Fredrick Siele	Ag. Service Marketing Manager
20	Gideon Muthuri	Ag. Sales and Marketing Manager

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

IV. CHAIRMAN'S STATEMENT

Overview of Economic Review

Kenya's real gross domestic product (GDP) growth is projected to rise to 5.7% in 2018—up from 4.9% in 2017—and continue to increase steadily to 5.8% in 2019, and 6.0% in 2020, according to the World Bank's 18th Kenya Economic Update (KEU). The rebound is attributed to a recovery in agriculture, steady pick-up in industrial activity and continued robust performance of the services sector. The pick-up in Kenya's economy is also reflected in improved household consumption and a developing recovery in private investment.

Household consumption is supported by strong remittance inflows and improved rains which has led to better harvests and lower food prices. Similarly, private sector investment is buoyed by improving investor sentiment and the availability of previously pent-up investment demand after a challenging 2017. Further, with benign inflationary conditions, a stable exchange rate, and healthy accumulation of reserves, the stable macroeconomic environment has been broadly supportive of the economic recovery. Nonetheless, with private sector credit growth remaining subdued at 4.3% this pick-up is being curtailed by limited access to credit, as well as headwinds from fiscal consolidation.

Since the 2017 announcement of the "Big 4" development agenda, which prioritizes food security, housing, universal health coverage and manufacturing, Kenya has made some progress in instituting policies that crowd-in private sector engagement, particularly within the affordable housing pillar. The legal and regulatory framework for the Kenya Mortgage Refinance Company (KMRC) has been completed, the Stamp Duty Act providing an exemption for first-time home buyers has been signed into law, and standardized forms to register a change in property ownership have been introduced. Further reforms are needed to advance the goals of food security and nutrition, universal health coverage and manufacturing competitiveness, to maximize the inclusiveness of economic growth.

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 21.9% of gross domestic product (GDP), with at least 56% of the total labor force employed in agriculture in 2017. Agriculture is also responsible for most of the country's exports, accounting for up to 65% of merchandise exports in 2017. 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.717** million as compared to a profit of Kshs. **606** million posted in 2017/2018 FY

Key Activities

Maize Situation

During the last 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. Initially, the Government authorized sale of 2 million x 90 Kg bags for sale of which 1.7 million bags was sold to millers at the price of Kshs.2,300 per 90 Kg bag and 300,000 bags was sold as animal feeds.

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

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 behalf of the Government supplied by YWPD and which were also distributed.

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 re-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, OGW, EBS, CBS, NDC (K)
CHAIRMAN

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

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.

During the year, NCPB received a new management team hired competitively to assist in revamping and turning around the organization. The new management team that joined include the Managing Director, General Managers Finance and Accounting, General Manager Marketing Operations, Corporate Planning Manager and Procurement Manager.

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 bumper 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 but this strategy only worked against the Government's policy because only 417,962 x 90 Kg bags was procured from farmers against a target of 2 million bags. In the end, many farmers remained with maize that they sold to the millers at low prices although towards the close of the year the prices of maize started rising until SFR had to intervene by releasing maize to the millers.

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 717 million as compared to a profit of Kshs 606 million posted in 2017/2018 FY. The gross sales turnover reduced from 8.22 billion in 2017/2018 FY to **Kshs 2.77 billion** in 2018/2019 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. 4.1 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. 5.3 billion from GOK which was used to pay farmers for maize deliveries in 2017/2018 and 2018/2019 FY as well as for purchase of gunny bags. However NCPB is still

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

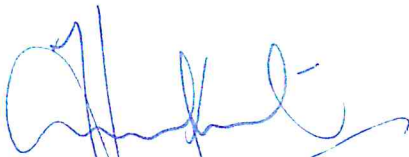
awaiting release of Kshs. 1.1 billion to clear the outstanding debt to farmers for 2017/2018 FY maize deliveries.

On social interventions, NCPB distributed 300,000 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 in 2018. This will be done under ISO 9001:2015 standards. Consequently the Board has commenced the process of transition to the new standard that is risk based but was put on hold due to financial constraints. 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 2019

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

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

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.

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 taking into account 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 analyze 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 2019**

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:-

- | | |
|-------------------------|-----------------------------------|
| • Mr. Nick Hutchinson | - Chairperson |
| • Mr. Albin Sang | - Managing Director |
| • Mrs. Eunice Karanja | - Member |
| • Mr. Philip T. Makheti | - Member |
| • Mr. Francis Musyimi | - Member |
| • Mr. John K. Ngetich | - Secretary (Ag. Board 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: -

- | | |
|-----------------------|--------------------------------------|
| • Dr. Francis Gichuki | - Chairperson |
| • Mr. David W. Wekesa | - Member |
| • Mr. Carl Tundo | - Member |
| • Mr. Philip Tarus | - Member |
| • Mr. Francis Musyimi | - Member |
| • 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 from external

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

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:-

- Mrs. Eunice Karanja - Chairperson
- Mr. Albin K Sang - Managing Director
- Mr. Nick Hutchinson - Member
- Dr. Francis Musyimi - Member
- Mr. Philip T. Makheti - Member
- Dr. Francis Gichuki - Member
- Mr. John K. Ngetich - Secretary (Ag. Board 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:-

- Mr. David W. Wekesa - Chairperson
- Mr. Albin K Sang - Managing Director
- Mrs. Eunice Karanja - Member
- Mr. Carl Tundo - Member
- Mr. Philip T. Makheti - Member
- Mr. Philip T. Tarus - Member
- Mr. John K. Ngetich -Secretary (Ag. Board 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 2019

Directors' Attendance 2018/2019 FY

No	Names	Designation	Full Board	Sub-Committees			
				Finance & Procurement Oversight)	Operations, business Development & Strategic Planning	Human Resource & Legal affairs	Audit
1.	Mutea Iringo	Chairman	12	0	0	0	0
2.	Dr. Francis Gichuki	Member	12	5	7	1	3
3	Mr. Silas Magut	Member	3	0	0	1	0
4	Mr. Nick Hutchinson	Member	1	2	-	-	0
5	Mrs. Ann Wambaa	Member	4	0	0	1	0
6	Mr. Philip Makheti	Rep. (MOALF&I)	12	5	6	5	0
7	Mr. Bernard Ngulalu	Rep. (Inspectorate)	9	0	0	0	0
8	Hon. David Wafula	Member	10	3	4	5	2
9	Ms. Eunice Karanja	Member	7	1	4	5	0
10	Mr. Philip Tarus	Rep. (MOD & ASAL's)	9	-	2	3	1
11	Mr. Vincent Matioli	Rep. (MOD & ASAL's)	0	0	1	0	0
12	Mr. Francis Musyimi	Rep. (Treasury)	5	1	4	0	3

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 2019

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 centres.

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).

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

- Commodity Exchange (COMEX) Market.
- 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:



Donations of Food and other items to Tsimba Children's Home in Kwale



NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

Donations of Food and other items to Matuga Girls High School in Mombasa



Food donation to Markaz Mosque in Diani-Ukunda in Kwale County

IX. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30 2019.

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 2019 are set out on page 25 and summarized below: -

	2019 Kshs	2018 Kshs
Operating profit before Depreciation & Provisions	(120,030,854)	1,133,641,247
Less:		
Depreciation	396,928,698	374,564,983
Amortization	2,396,024	2,294,275
Bad and doubtful debts	197,906,495	150,000,000
	<u>597,231,218</u>	<u>526,859,257</u>
Net Profit	<u>(717,262,072)</u>	<u>606,781,989</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, 2019

By Order of the Board


Mr John K Ngetich
BOARD SECRETARY
NAIROBI
17TH JULY 2020

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

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.

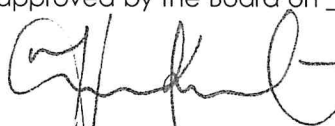
The Directors are responsible for the preparation and presentation of the Board's financial statements, which give a true and fair view of the state of affairs of the *entity* for and as at the end of the financial year (period) ended on June 30, 2019. This responsibility includes: (i) maintaining adequate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

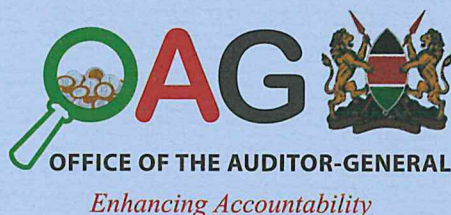
The Board's financial statements were approved by the Board on 17/07 2020 and signed on its behalf by:


Chairman


Managing Director

REPUBLIC OF KENYA

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON NATIONAL CEREALS AND PRODUCE BOARD FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Adverse of Opinion

I have audited the accompanying financial statements of National Cereals and Produce Board set out on pages 25 to 45, which comprise the statement of financial position as at 30 June, 2019, 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of National Cereals and Produce Board as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (Accrual Basis) and do not comply with the Public Finance Management Act, 2012 and the National Cereals and Produce Board Act, 1985.

Basis for Adverse Opinion

1.0 Unreconciled Bank and Cash Balances

The statement of financial position and as disclosed in Note 16 to the financial statements reflects bank and cash balances of Kshs.4,070,766,150 as at 30 June, 2019. However, the following anomalies were observed: -

- i. The bank balance of Kshs.4,037,872,639 differed with the cash book balance of Kshs.4,043,226,937 resulting in an unexplained and unreconciled variance of Kshs.5,354,293.
- ii. Included in cash in hand balance of Kshs.1,339,310 was Mpesa account balances of Kshs.67,380.29 that were not supported with Safaricom statements of account.

- iii. The bank reconciliation statements included stale cheques amounting to Kshs.294,025 as well as receipts in bank statements but not in cash book amounting to Kshs.4,582,794.

Consequently, the accuracy and completeness of the bank and cash balances of Kshs.4,070,766,150 could not be confirmed.

2.0 Unreconciled and Unsupported Bank Overdraft

The statement of financial position reflects bank overdraft balance of Kshs.544,116,930 as at 30 June, 2019. However, this figure differed with cash book balance of Kshs.551,226,455 resulting in an unexplained and unreconciled variance of Kshs.7,109,525. Further, the bank overdraft of Kshs.544,116,930 was not supported by a bank reconciliation statement and bank confirmation certificate.

Consequently, the accuracy, completeness and fair statement of the overdraft balance of Kshs.544,116,930 as at 30 June, 2019 could not be confirmed.

3.0 Inaccuracies in Property, Plant and Equipment

The statement of financial position and as disclosed in Note 10 to the financial statements reflects property plant and equipment balance of Kshs.6,041,210,862 as at 30 June, 2019. However, the following inaccuracies were noted: -

- i. The property, plant and equipment figure includes an amount of Kshs.8,540,920 relating to capitalized VAT contrary to Paragraph 16(a) of the International Accounting Standard (IAS) No.16. The standard requires 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 16% VAT charged on the assets is a refundable purchase tax as the Board is VAT registered.
- ii. Included in the property, plant and equipment figure are thirty-five parcels of land valued at Kshs.1,285,079,450 that do not have title deeds. In addition, there are fifty-five donor funded storage facilities whose ownership has not been clarified.
- iii. The work in progress opening balance of Kshs.51,414,759 includes an amount of Kshs.16,978,655 that relate to projects that had been completed and certificates issued.
- iv. Included in the work in progress figure of Kshs.36,618,713 are additions of Kshs.4,807,072 whose supporting documents were not provided for audit.

Consequently, the accuracy, completeness and ownership of the property, plant and equipment balance of Kshs.6,041,210,862 as at 30 June, 2019 could not be confirmed.

4.0 Inaccuracies in Inventory Records

The statement of financial position reflects inventories balance of Kshs.402,684,031 as at 30 June 2019. However, the following issues were noted: -

- i. A comparison between balance reflected in the financial statements, the stock take report and the Navision system report revealed unexplained and unreconciled discrepancies.
- ii. There was no stock reconciliation to separate the government stocks from the Board's stocks.
- iii. Maize valued at Kshs.342,482,895 stored at the Board's depot was reported to contain high levels of aflatoxin by the Ministry of Health. This was declared to be unfit for human consumption. Management did not provide write down of the stocks to recognize the losses made during the year under review as prescribed in IAS 2.
- iv. Records maintained by the Strategic Grain Reserve Fund indicated stocks balance of 3,913,098 bags of maize as at 30 June, 2018 whereas the Board's store records reflected 6,521,481. The discrepancy of 82,608,383 bags has not been reconciled.

Consequently, the accuracy and completeness of the stock balances of Kshs.402,684,031 as at 30 June, 2019 could not be confirmed.

5.0 Inaccuracies in Trade Debtors and Pre-payments

The statement of financial position and as disclosed in Note 13 reflects trade debtors and pre-payment balance of Kshs.590,846,770 as at 30 June, 2019. However, the following inaccuracies were noted: -

- i. Note 4(f) on summary of significant accounting policies states that, provision for bad and doubtful debts is made on the basis of specific debtors and consists of 100% specific provision for some debtors and a general provision of 7.5% on all outstanding trade debts at the balance sheet date. However, examination of available information and Note 13 to the financial statements does not show that a general provision of 7.5% was made on all outstanding debts as at 30 June, 2019.
- ii. Note 13 to the financial statements reflects trade and other receivables gross figure of Kshs.1,582,311,179 before provisions for bad and doubtful debts. Included in this figure is Kshs.214,927,885 relating to sundry debtors and prepayments. However, the general ledger reflected Kshs.217,397,346 resulting in an unexplained and unreconciled variance of Kshs.2,469,461. Further, out of the total sundry debtors, an amount of Kshs.71,264,041 has been outstanding for more than seven years.
- iii. Included in this trade debtors and other receivables is Kshs.1,211,612,815 in respect to trade debtors. It was noted that a total of Kshs.750,033,616 or 61.9% of trade debtors that have been outstanding for more than seven years. Although a cumulative bad debts provision of Kshs.991,464,409 has been made in the financial statements, recoverability of the amount is in doubt.

Consequently, the accuracy, completeness and recoverability of the trade debtors and pre-payment could not be confirmed.

6.0 Unsupported Government Debtors - New Agency Account

The statement of financial position and as disclosed in Note 14 to the financial statements reflects Government Debtors-New Agency Account balance of Kshs.9,275,250,160. It was noted that the debtors decreased by Kshs.1,846,439,800 from Kshs.11,121,689,843 reported in the previous financial year. However, management did not provide documents to support the reduction.

7.0 Unsupported Government Debtors - Ministry of Agriculture (MOA) Fertilizer Account

The statement of financial position and as disclosed in Note 15 to the financial statements reflects Government Debtors - MOA Fertilizer Account balance of Kshs.7,593,776,111. Included in the balance is 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 Famine Relief respectively which have remained unpaid for over 17 years. It has not been possible to confirm whether the Board will be able to recover the amounts, Management did not make provisions for bad and doubtful debts.

Consequently, the accuracy and completeness of Kshs.7,593,776,111 in respect to Government Debtors-MOA Fertilizer A/c as at 30 June, 2019 could not be ascertained.

8.0 Unsupported Creditors-Due to GOK on Past Market Interventions

The statement of financial position and as disclosed in Note 24 to the financial statements reflects a balance of Kshs.174,063,028 relating to creditors - due to GOK past market intervention. This balance relates to retained surplus from 1994/1995 maize intervention and subsequent maize export transaction in 1995/1996 and 1996/1997 retained to offset against other GOK debts which are still under review. However, Management did not provide supporting evidence in support of this amount.

In the circumstances, the accuracy and fair statement of the Government Market Interventions Account balance of Kshs.174,063,026 as at 30 June, 2019 could not be confirmed.

9.0 Unsupported Government Agency Programme (Old Account)

The statement of financial position and as disclosed in Note 25 to the financial statements reflects a balance of Kshs.143,195,039 in respect to Government Agency Account – Operating Results (Old Account). This balance relates to amounts held on behalf of the Government from cereal sales by the Board prior to the liberalization of cereals in 1993. However, Management did not provide documentary evidence for audit in support of the balance and reason why the Board has not remitted this amount to the Government since 1993.

In the circumstances, the accuracy and completeness of the Government Agency-Old Account balance of Kshs.143,195,039 as at 30 June, 2019 could not be confirmed.

10.0 Undisclosed Value Added Tax Arrears

The statement of financial position reflects total current liabilities balance of Kshs.19,653,832,902 as at 30 June, 2019. Included in this figure is an amount of Kshs.964,765,588 in respect of Value Added Tax arrears payable to Kenya Revenue Authority on agencies services to government. This figure includes Kshs.464,430,643.61 tax arrears that have remained outstanding since 2002. Further, the long-term taxation account does not include withheld VAT that may have accrued in the last three years. Although the tax arrears continue to attract penalties and interest, the same have not been assessed and incorporated in these financial statements.

Consequently, the accuracy and completeness of the total current liabilities of Kshs.19,653,832,902 cannot be confirmed.

11.0 Unsupported Cost of Sales

The statement of profit and loss and other comprehensive income and as disclosed in Note 2 to the financial statement reflects Kshs.1,885,230,200 in respect to cost of sales. Included in this figure are purchases of Kshs.629,997,952. Review of the purchases revealed that a total of Kshs.496,089,500 was incurred on procurement of 10,000 metric tonnes (MT) of Government fertilizer under the assignment contract. However, the assignment contract details indicated that the cost of the fertilizer was Kshs.427,980,000 resulting in an unexplained and unreconciled variance of Kshs.68,109,500 as shown below:

	Unit Price Per Mt (Kshs.)	Order Per Mt	Quantity ordered Bags	Cost (Kshs.)
NPK 17:17:17	48,268.50	5,000	100,000	241,342,500
CAN 26%	37,327.50	5,000	100,000	186,637,500
Total		10,000	200,000	427,980,000

Consequently, the accuracy of the cost of sales amount of Kshs.1,885,230,200 as at 30 June, 2019 could not be confirmed.

12.0 Disclosure of Contingent Liability

As previously reported, the Board entered into a fixed sum contract of 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 MT which was not executed. The supplier sought for arbitration with the Kenya Chapter Institute of Chartered Arbitrators 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 of which the amount of

Kshs.264,864,285 has since been settled through bank attachments. The case is in court awaiting its hearing and determination. Management has not disclosed the contingent liability relating to this matter.

Consequently, the financial statements do not have full disclosure.

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 adverse audit opinion.

Key Audit Matters

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

Other Matter

Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. Although the Management has provided comments on annexure XVI on progress on follow-up of auditor recommendation, the matters have remained unresolved as parliament has not met to deliberate on the same.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1.0 Encroachment on the Board's Property

Field inspection undertaken on a number of depots revealed that there is encroachment on the Board's property as detailed below: -

- i. In Bungoma a portion of plot number 485 where the Bungoma silos are located has been encroached by a third party who has fenced the land and leased it to a garage operator. It was not possible to ascertain the effort the Board is making to get back its land.
- ii. In Nakuru the Board did not have any 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.
- iii. In Kericho there were permanent residential houses constructed and occupied by third parties who claim to own the properties and have allotment letters for three of the Board's properties Blk.5/65 or L.R NO.631/488, Blk.5/66 or L.R NO.631/505 and Blk.5/67 or L.R NO.631/504 measuring 0.03ha, 0.0389ha and 0.0335 ha, respectively. It is not clear under what circumstances that the land ceased to belong to the Board.
- iv. Properties Blk.5/138, Blk.2/49 and Blk.5/165 measuring 0.0654ha, 0.7284ha, and 0.0654ha are each encroached from one side by pushing in the boundary beacons.
- v. In Kakamega Depot it was noted that the tenant has built permanent structures on the open space and also repainted the NCPB office. However, there was no evidence provided to show that these developments on the property Blk.1/640 were approved by the Board of Directors.

The Board Management did not demonstrate measures instituted to ensure that adequate control and safeguards for its assets are implemented. This was contrary to Regulation 139 (1) (a) of the Public Finance Management (National Government) Regulation 2015.

Consequently, Management was in breach of law and risks losing valuable assets.

2.0 Acting Allowances

The Board paid acting allowances of Kshs.24,351,167.95 out of which Kshs.17,255,180 was paid to members of staff who were in acting capacity for more than six (6) months. This was contrary to Section C.14(1) of the Public Service Commission (PSC) Human Resource Policy, 2016 and the Board's own Human Resource Policy which provides that acting appointment shall automatically lapse after six (6) months.

Consequently, the Management is in breach of the human resource policies and procedures.

3.0 Non-Compliance with the One Third of Basic Salary Rule

Review of the payrolls revealed that some employees' salary deductions fell below 1/3 of the basic salary. This was contrary to Section 19(3) of the Employment Act, 2007 which requires that deductions made by an employer from the wages of his employee at any one time shall not exceed two thirds of such wages.

Consequently, Management was in breach of law.

4.0 Procurement, Delivery and Distribution of Fertilizer on Behalf of Parent Ministry

During the financial year 2018/2019, the Board procured 10,000 metric tonnes of fertilizer valued at Kshs.496,089,500. However, Management did not provide for audit documents in support of the importation and certificate of conformity issued by Kenya Bureau of Standards.

Consequently, it was difficult to ascertain that value for money was realised in the procurement of the fertilizer.

The audit was conducted per 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 comply, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, because of the significance of the matters discussed in the Basis for Adverse Opinion, Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

Basis for Conclusion

Composition of the Board Audit Committee

Review of the appointment of members to the Board Audit Committee revealed that the appointment failed to meet the criteria set under Part 1.1.6 Mwongozo the Code of Governance for State Corporations. The Mwongozo the Code of Governance for State Corporations requires that at least one of the members of the Audit Committee should have financial expertise and be a member of professional body regulating the accountancy professionals.

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

Responsibilities of Directors and those Charged with Governance

The Directors are 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 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 the Directors are aware of the intention to terminate 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 Board's financial reporting process, reviewing the effectiveness of how 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 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 Directors.
- 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 Board's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Board to cease to continue to 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 Board to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

14 January, 2022

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

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

	Note	<u>2019</u> Kshs	<u>2018</u> Kshs
Gross Sales	1	2,765,881,725	8,216,466,041
Cost of Sales	2	<u>1,885,230,200</u>	<u>6,603,758,017</u>
Gross Margin		880,651,525	1,612,708,024
Gross Margin Gain as a % of Gross sales		32%	20%
ADD:			
Other Incomes	3	<u>1,126,251,294</u>	<u>2,218,540,378</u>
TOTAL REVENUES		2,006,902,819	3,831,248,402
OPERATING EXPENSES			
Railway and Road Transport	4	130,760,793	635,714,112
Staff costs and wages	5	975,092,543	969,414,430
Administration expenses	6	302,321,189	311,081,773
Directors expenses	7	17,242,394	10,124,439
Other operating expenses	8	<u>117,223,784</u>	<u>178,732,341</u>
		1,542,640,703	2,105,067,094
Profit before depreciation and bad debts		464,262,115	1,726,181,308
Deduct:			
Depreciation expense	10	396,928,698	374,564,983
Amortisation expense	11	2,396,024	2,294,275
Bad and doubtful debts	13	<u>197,906,495</u>	<u>150,000,000</u>
		<u>597,231,218</u>	<u>526,859,257</u>
Profit from operations		(132,969,102)	1,199,322,051
Finance costs	9	<u>584,292,969</u>	<u>592,540,061</u>
Profit Before Tax		(717,262,072)	606,781,989
Income Tax expense		-	-
Net profit after tax		(717,262,072)	606,781,989
Other comprehensive income			
Gains on disposal of land		=	=
TOTAL COMPREHENSIVE INCOMES FOR THE YEAR		<u>(717,262,072)</u>	<u>606,781,989</u>

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

XIII. STATEMENT OF FINANCIAL POSITION

	Note	2019 Kshs	2018 Kshs
ASSETS			
Non- Current Assets			
Property, Plant and Equipment	10	6,041,210,862	6,411,811,785
Intangible Assets	11	3,884,406	5,592,226
Total Non – Current Assets		<u>6,045,095,268</u>	<u>6,417,404,011</u>
CURRENT ASSETS			
Inventories	12	402,684,031	1,635,513,148
Trade Debtors and Prepayments	13	590,846,770	947,343,634
Government Debtors – New Agency A/c	14	9,275,250,160	11,121,689,965
Government Debtors – MOA Fertiliser A/c	15	7,593,776,111	7,548,486,738
Bank and Cash Balances	16	4,070,766,150	735,035,231
Total Current Asset		<u>21,933,323,222</u>	<u>21,988,068,716</u>
TOTAL ASSETS		<u>27,978,418,490</u>	<u>28,405,472,727</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	(7,568,979,377)	(6,851,717,305)
Capital and Reserves		<u>8,324,585,588</u>	<u>9,041,847,660</u>
CURRENT LIABILITIES			
Bank Overdraft	20	544,116,930	308,617,238
Short Term Loan	21	4,133,153,127	4,246,000,000
Creditors and Provisions	22	4,164,619,751	6,594,894,331
Creditors - Due to GOK on fertilizer Sales	23	4,462,649,527	3,707,840,910
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	5,067,269,912	3,224,248,932
Taxation	27	964,765,588	964,765,588
Total Current Liabilities		<u>19,653,832,902</u>	<u>19,363,625,067</u>
TOTAL EQUITY AND LIABILITIES		<u>27,978,418,490</u>	<u>28,405,472,727</u>

The financial statements were approved by the Board on 17/07/ 2020 and signed on its behalf by:


CPA. Samuel K. Ndung'u

ICPAK NO 3001

General Manager Finance & Accounting


Joseph Kimote
Managing Director


Chairman of the Board

**NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

XIV. STATEMENT OF CHANGES IN EQUITY

	Capital Fund KShs	Revaluation reserve KShs	Restated Revenue reserve KShs	Total KShs
At July 1, 2017	6,304,142,172	9,589,422,793	(7,458,499,294)	8,435,065,671
Net Profit for the year			606,781,989	606,781,989
At June 30, 2018	6,304,142,172	9,589,422,793	(6,851,717,305)	9,041,847,660
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

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

XV. STATEMENT OF CASH FLOWS

	Note	2019 Kshs	2018 Kshs
OPERATING ACTIVITIES			
Cash generated from/used in operations	28	<u>3,127,247,201</u>	<u>(1,952,122,053)</u>
Net cash generated from /used in operating activities		<u>3,127,247,201</u>	<u>(1,952,122,053)</u>
INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment	10	<u>(27,015,973)</u>	<u>(61,921,666)</u>
Net increase /(decrease) in cash and cash equivalent (a)		<u>3,100,231,229</u>	<u>(2,014,043,719)</u>
Cash and Cash equivalent at beginning of the year			
Cash at Bank and on Hand	16	735,035,231	2,871,649,414
Bank Overdraft	20	<u>(308,617,238)</u>	<u>(431,187,701)</u>
Total (b)		<u>426,417,994</u>	<u>2,440,461,713</u>
Total (a+b)		<u>3,526,649,222</u>	<u>426,417,993</u>
Cash and Cash equivalent at end of the year			
Cash at Bank and on Hand	16	4,070,766,150	735,035,231
Bank Overdraft	20	<u>(544,116,932)</u>	<u>(308,617,238)</u>
		<u>3,526,649,220</u>	<u>426,417,993</u>

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

**XVI. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDED 30 JUNE 2019**

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% + / (-)	Ref no.
	<u>2019</u>	<u>2019</u>	<u>2019</u>	<u>2019</u>	<u>2019</u>		
	Kshs	Kshs	Kshs	Kshs	Kshs		
Revenue							
Gross sales	10,926,511,346	927,791,005	9,998,720,341	2,765,881,725	(7,232,838,616)	-72%	A
Less: Cost of sales	<u>(8,441,562,574)</u>	<u>(928,862,181)</u>	<u>(7,512,700,393)</u>	<u>(1,885,230,200)</u>	<u>(5,627,470,193)</u>	<u>75%</u>	B
Gross margin	2,484,948,772	(1,071,176)	2,486,019,948	880,651,525	(1,605,368,423)		
Add:							
Other Incomes	<u>1,887,752,923</u>	<u>(16,647,768)</u>	<u>1,871,105,155</u>	<u>1,126,251,294</u>	<u>(744,749,740)</u>	-40%	C
Total income	4,372,701,695	(15,576,592)	4,357,125,103	2,006,902,819	(2,350,222,284)		
Expenses							
Railway & Transport costs	1,021,281,332	(171,405,458)	849,875,874	130,760,793	(719,115,081)	85%	D
Staff costs and wages	1,248,157,701	(81,098,938)	1,167,058,763	975,092,543	(191,966,220)	16%	E
Administrative Expenses	435,767,665	7,635,835	443,403,500	319,563,583	(123,839,917)	28%	F
Other operating expenses	284,485,090	(12,860,714)	271,624,376	117,223,784	(154,400,592)	57%	G
Provision	766,214,489	(1,000,000)	765,214,489	597,231,218	(167,983,271)	22%	H
Finance Cost	<u>308,003,364</u>	<u>359,306,060</u>	<u>667,309,424</u>	<u>584,292,969</u>	<u>(83,016,455)</u>	12%	I
Total expenditure	4,063,909,641	100,576,785	4,164,486,426	2,724,164,890	(1,440,321,536)		
Surplus for the Year	<u>308,792,054</u>	<u>(116,153,377)</u>	<u>192,638,677</u>	<u>(717,262,071)</u>	<u>(909,900,748)</u>		

Explanatory notes on the differences above:

- The decrease in gross sales is due to drop in sale of fertilizer
- The drop in cost of sales is due to low sales turnover.
- The decrease in other incomes is due to decreased commissions on SFR maize.
- The transport costs decreased due to low-transportation of fertilizer from the port to various upcountry depots across NCPB network
- The staff costs decreased due to non-implementation of CBA, retirements and non-hiring of management trainees.
- The decrease in administrative costs is as a result of low maintenance and fumigation costs
- Decrease in other operating expenses is due to decreased business activities
- Provision for depreciation decreased due to low implementation of capital projects.
- 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, 2019**

XVII. 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 2019

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 2019.

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

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 and the cost expensed/charged at the time of dispatch to the respective user budget centres.

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

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 2019.

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.

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.

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

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 2018-2019 was approved by the National Assembly and subsequently cascaded and the parent ministry communicated the approval on 26th October 2018.

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, 2019.

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.

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

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

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 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. Gross Sales

	<u>2019</u> Kshs	<u>2018</u> Kshs
Local White Maize	1,063,133	1,476,090
Rice	145,956,385	150,285,776
Paddy	0	0
Wheat	0	0
Gunnies	995,497	51,405
Maize seed	1,103,580	0
Beans	150,902,600	85,601,980
Green Grams	9,035,580	1,254,950
Fertiliser	<u>2,456,824,950</u>	<u>7,977,795,840</u>
	<u>2,765,881,725</u>	<u>8,216,466,041</u>

2. Cost of Sales

Opening stocks	1,679,710,895	2,526,153,798
Purchase	629,997,952	5,749,587,160
Milling Costs	-	-
Provision for stock shrinkage (2.2%)	2,251,690	7,123,921
Closing Stocks	<u>(426,730,337)</u>	<u>(1,679,710,896)</u>
Cost of sales	<u>1,885,230,200</u>	<u>6,603,758,017</u>

3. Other Incomes

(a) Revenue from services/facilities

Weigh bridge charges	13,161,845	10,565,113
Bagging and handling charges	13,567,722	7,676,780
Cleaning charges	1,157,585	629,289
Rental charges	357,641,836	355,831,170
Drying and fumigation	<u>71,059,234</u>	<u>55,215,003</u>
	<u>456,588,222</u>	<u>429,917,355</u>

(b) Agency services

Gok agency remuneration	635,357,558	1,729,308,042
Agency commission from inputs	<u>0</u>	<u>0</u>
	<u>1,091,945,779</u>	<u>2,159,225,397</u>

(c) Sundry income

Insurance compensation	518,363	0
Sale of tender documents	32,000	2,583,408
Sale of obsolete materials	0	18,000
Other miscellaneous income	10,355,127	7,212,420
Other fee and charges	-	-
Gain on disposal of fixed assets	<u>0</u>	<u>240,000</u>
	<u>10,905,490</u>	<u>10,053,828</u>

(d) investment income

Interest earned on short term Investments(FDR)	<u>23,400,025</u>	<u>49,261,153</u>
TOTAL OTHER INCOMES	<u>1,126,251,294</u>	<u>2,218,540,378</u>

4. Railway & Road transport costs

	<u>130,760,793</u>	<u>635,714,112</u>
	<u>130,760,793</u>	<u>635,714,112</u>

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

5. Staff Costs

	<u>2019</u>	<u>2018</u>
	Kshs	Kshs
Salaries and wages	767,143,975	732,631,956
Board's contribution to PF and SSS	81,231,593	83,168,796
Board's contribution to NSSF	1,920,000	1,987,800
Medical expenses	45,128,194	72,951,803
Leave pay and gratuities	29,755,104	13,762,401
Welfare and training	<u>49,913,677</u>	<u>64,911,673</u>
	<u>975,092,543</u>	<u>969,414,430</u>

The average number of employees at the end of the year was:

Permanent Employee – Management	378	519
Permanent Employee - Unionisable	426	302
Temporary and contract Employees	<u>42</u>	<u>38</u>
	<u>846</u>	<u>859</u>

6. Administration expenses

Entertainment	6,165,373	5,743,957
Advertising	1,730,804	4,948,116
Conservancy, light and water	55,202,209	81,274,500
Consumable stores	1,505,968	1,028,484
Insurance	17,782,712	16,723,331
Land rents & rates and siding charges	27,515,130	19,686,613
Maintenance of machinery, furniture & equipment	42,303,882	41,781,775
Maintenance of building, fences, gates, roads and railway sidings	15,633,610	15,852,017
Postage, telegrams and telephone	12,266,582	12,605,535
Printing and stationery	7,939,022	5,654,298
Security expenses	112,832,888	104,318,903
Subscription & Nafaka Newsletter	554,650	763,247
Uniform and protective clothing	778,400	567,997
Donations	<u>109,960</u>	<u>133,000</u>
	<u>302,321,189</u>	<u>311,081,773</u>

7. Directors expenses	<u>17,242,394</u>	<u>10,124,439</u>
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8. Operating Expenses

Fumigation expenses	1,334,500	213,588
Grain dryers operating costs	12,878,663	49,499,826
Commodity handlings costs	4,735,488	1,326,186
Hired transport (Non commodities)	-	-
Shows and exhibitions	5,645,567	6,932,666
Travelling and subsistence	67,971,440	83,818,719
Vehicles running costs	17,065,307	13,727,330
Audit fee	2,750,000	2,750,000
Legal and other professional fees	<u>4,842,819</u>	<u>20,464,026</u>
	<u>117,223,784</u>	<u>178,732,341</u>

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

9. Finance Costs

	<u>2019</u> <u>Kshs</u>	<u>2018</u> <u>Kshs</u>
Bank charges	14,288,317	104,230,875
Bank overdraft and Loan interest	<u>570,004,653</u>	<u>488,309,186</u>
	<u>584,292,969</u>	<u>592,540,061</u>

10. Property, Plant and Machinery (KShs) - 2019

	Leasehold Land	Fencing Driveways & civil works	Building and Grain Silos	Motor Vehicles	Plant & Machinery & Equipment	WIP	TOTAL
Cost /Valuation							
1/7/2018	943,121,270	422,430,110	9,580,330,660	102,215,981	546,145,872	51,414,759	11,645,658,652
Additions	0	0	1,620,836	0	29,514,005	(4,807,072)	26,327,769
Adjustment	0	0	0	0	<u>9,988,974</u>	<u>(9,988,974)</u>	0
Disposals	0	0	0	0	0	0	0
At 30/06/2019	<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>
DEPRECIATION							
1/7/2018	171,920,683	139,948,460	4,366,829,346	81,894,841	473,253,536	0	5,233,846,867
Charge for the Year	12,869,956	8,766,532	359,077,282	7,275,206	8,939,715	0	396,928,691
On disposal	0	0	0	0	0	0	0
30/06/2019	<u>184,790,640</u>	<u>148,714,992</u>	<u>4,725,906,628</u>	<u>89,170,047</u>	<u>482,193,251</u>	<u>0</u>	<u>5,630,775,558</u>
NET BOOK VALUE	<u>758,330,629</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>

Property, Plant and Machinery (KShs) - 2018

	Leasehold Land	Fencing Driveways & civil works	Building and Grain Silos	Motor Vehicles	Plant & Machinery & Equipment	WIP	TOTAL
Cost /Valuation							
1/7/2017	943,121,270	422,430,110	9,569,796,619	96,165,981	507,807,340	46,425,665	11,585,746,985
Additions	0	0	10,534,041	8,060,000	38,338,532	4,989,094	61,921,667
Disposals	0	0	0	(2,010,000)	0	0	(2,010,000)
At 30/06/2018	<u>943,121,270</u>	<u>422,430,110</u>	<u>9,580,330,660</u>	<u>102,215,981</u>	<u>546,145,872</u>	<u>51,414,759</u>	<u>11,645,658,652</u>
DEPRECIATION							
1/7/2017	159,882,930	129,334,747	4,031,943,715	75,040,704	465,089,788	0	4,861,291,884
Charge for the Year	12,037,753	10,613,713	334,885,631	8,864,137	8,163,749	0	374,564,983
On disposal	0	0	0	(2,010,000)	0	0	(2,010,000)
30/06/2018	<u>171,920,683</u>	<u>139,948,460</u>	<u>4,366,829,346</u>	<u>81,894,841</u>	<u>473,253,536</u>	<u>0</u>	<u>5,233,846,867</u>
NET BOOK VALUE	<u>771,200,585</u>	<u>282,481,649</u>	<u>5,213,501,313</u>	<u>20,321,140</u>	<u>57,530,352</u>	<u>51,414,759</u>	<u>6,411,811,785</u>

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

11. Intangible Assets

	<u>2019</u> Kshs	<u>2018</u> Kshs
COST		
At July 1 2018	32,006,091	<u>32,006,091</u>
Addition	688,204	
At 30 th June 2019	<u>32,694,295</u>	<u>32,006,091</u>
AMORTISATION		
At July 1 2018	<u>26,413,865</u>	<u>24,119,590</u>
Charge for the year	2,396,024	2,294,275
At 30 th June 2019	<u>28,809,889</u>	<u>26,413,865</u>
Net Book Value at 30th June 2019	<u>3,884,406</u>	<u>5,592,226</u>

12. Inventories

The closing stocks of commodities valued at Kshs 402,684,030(2017/2018 Kshs 1,635,513,148) was composed of the following:

	<u>2019</u> Kshs	<u>2018</u> Kshs
(a)Composition of stocks		
Local White maize	10,667,655	19,202,445
Beans	1,947,285	70,881,613
Wheat	0	0
Castor seeds	640	640
Paddy	140,593,525	161,244,490
Local milled rice	12,916,693	65,549,203
Wimbi	55,640	55,640
Green Grams	8,802,160	7,968,311
Fertiliser	224,470,331	1,327,531,344
Packaging bags(Jute/pp)	27,264,234	27,265,037
Insecticides	<u>12,174</u>	<u>12,173</u>
Total	<u>426,730,337</u>	<u>1,679,710,896</u>
(b)stock of consumables	<u>85,988,212</u>	<u>63,585,080</u>
Total	<u>512,718,549</u>	<u>1,743,295,976</u>
Less:		
Provision for stock shrinkage (2.2%)	107,752,281	105,500,591
Provision for obsolete consumable stock	<u>2,282,237</u>	<u>2,282,237</u>
Total provision	<u>110,034,518</u>	<u>107,782,828</u>
Total closing stock at year end	<u>402,684,030</u>	<u>1,635,513,148</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	1,211,612,815	1,541,943,941
Staff Debtors	119,676,937	124,291,085
Sundry Debtors and Prepayments	<u>214,927,885</u>	<u>188,572,981</u>
Total	<u>1,582,311,179</u>	<u>1,890,901,549</u>
Less: Provision for bad and doubtful debts(b)	<u>991,464,409</u>	<u>943,557,914</u>
Net Trade and Other receivables	<u>590,846,770</u>	<u>947,343,635</u>

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

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

Associated Companies	160,078	160,078
Debtors for imported Wheat	35,933,464	35,933,464
Other trade debtors	860,105,028	831,604,397
Staff debtors	56,050,716	50,891,834
Sundry debtors	<u>39,215,121</u>	<u>24,968,141</u>
Total cumulative provision	<u>991,464,408</u>	<u>943,557,914</u>

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

	2019	2018
	Kshs	Kshs
Less than 30 days	82,913,248	46,090,717
Between 30 and 60 days	4,360,375	71,534,429
Between 61 and 90 days	12,484,699	53,498,560
Between 91 and 120 days	551,962,269	62,465,440
Over 120 days	<u>559,892,225</u>	<u>980,825,031</u>
	<u>1,211,612,815</u>	<u>1,214,414,180</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	Amounts Received	Net bal. due 30th June 2019	Net bal. due 30th June 2018
(a) Strategic Grain Reserve (old A/c)				
Balance B/F	342,241,936	0	342,341,936	342,341,936
Direct expenses for the year	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>342,241,936</u>	<u>0</u>	<u>342,341,936</u>	<u>342,341,936</u>
(b) Famine Relief Programme				
Balance B/F	(650,714,641)	0	(650,714,641)	(580,808,029)
Direct expenses for the year	325,073	0	325,073	(69,239,511))
Storage charges	<u>206,110,081</u>	<u>0</u>	<u>206,110,081</u>	<u>(667,102)</u>
Sub Total	<u>(444,279,487)</u>	<u>0</u>	<u>(444,279,487)</u>	<u>(650,714,641)</u>
(c) GOK 17selected Depots for Famine Relief				
Balance B/F	191,916,638	0	191,916,638	191,916,638
Direct expenses for the year	<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	11,716,709,227	0	11,716,709,227	2,258,473,133
Direct expenses for the year	1,338,868,857	3,975,578,636	(2,636,709,658)	7,459,671,962
Storage charges	<u>733,834,698</u>	<u>0</u>	<u>733,834,698</u>	<u>1,998,564,010</u>
Sub Total	<u>13,789,412,781</u>	<u>3,975,578,636</u>	<u>9,813,834,267</u>	<u>11,716,709,105</u>
Total(a+b+c+d)	<u>13,879,391,868</u>	<u>3,975,578,636</u>	<u>9,903,813,354</u>	<u>11,600,253,038</u>
Less sales proceeds from sale of returned gunnies			0	0
			<u>9,903,813,354</u>	<u>11,600,253,038</u>
Provision for bad & doubtful debts			628,563,195	478,563,195
Net outstanding balance - 30th June 2019			<u>9,275,250,159</u>	<u>11,121,689,843</u>

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

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>2019</u> Kshs	<u>2018</u> Kshs
Balance B/F	<u>7,548,486,738</u>	<u>4,211,100,117</u>
Add cost for the year	<u>1,381,593,928</u>	<u>4,737,386,619</u>
	8,930,080,666	8,948,486,736
Less: Amount received during the year	<u>1,336,304,555</u>	<u>1,400,000,000</u>
Balance due from GOK	<u>7,593,776,111</u>	<u>7,548,486,738</u>

16. Bank and Cash Balances

The amount of Kshs 4,055,036,390 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 2019.

	<u>2019</u> Kshs	<u>2018</u> Kshs
Cash at Bank	4,037,872,639	839,246,308
Cash in hand	1,339,310	5,850,148
Cash in transit	<u>31,554,200</u>	<u>(110,061,226)</u>
Total cash at Bank and in hand	<u>4,070,766,149</u>	<u>735,035,231</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	4,037,872,639	839,246,308
Cash in transit		31,554,200	(110,061,226)
cash in hand		1,339,310	5,850,148
Sub- total		<u>4,070,766,149</u>	<u>735,035,231</u>
b) bank Overdraft		(544,116,930)	(308,617,238)
Total cash and cash equivalents		<u>3,526,649,219</u>	<u>426,417,993</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. 717,262,072 during the year under review on its commercial activities. The Loss has been transferred to the Revenue Reserves Account leaving a debit balance of Kshs. 7,568,979,377 as shown below;

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

	<u>2019</u> Kshs	<u>2018</u> Kshs
Balance B/F	(6,851,717,305)	(7,458,499,294)
Net profit for the year	<u>(717,262,072)</u>	<u>606,781,989</u>
	<u>(7,568,979,377)</u>	<u>(6,851,717,305)</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 2019 were as follows: -

	<u>2019</u> Kshs	<u>2018</u> Kshs
Main Bank A/c	<u>544,116,930</u>	<u>308,617,238</u>

21. **SHORTTERM LOAN**

Further the Board has standing additional short term loan facility with Kenya Commercial Bank of Kshs 5.135 billion. The balances as at 30th June 2019 were as follows: -

	<u>2019</u> Kshs	<u>2018</u> Kshs
Balance at beginning of the year	4,246,000,000	2691,627,318
Domestic borrowings during the year	0	1,554,372,682
Repayments of domestics borrowings during the year	<u>(112,846,873)</u>	<u>0</u>
Balance at end of the year	<u>4,133,153,127</u>	<u>4,246,000,000</u>

The Board does not have any external loan. The domestic borrowing is as follows:

Domestic Borrowings		
KCB Loan	<u>4,133,153,127</u>	<u>4,246,000,000</u>

22. **Trade Creditors and other Payables**

	<u>2019</u> Kshs	<u>2018</u> Kshs
Trade payables	1,744,818,742	1,935,644,390
Creditors – owing to farmers	1,145,051,242	3,527,257,567
Creditors – staff	11,337,833	10,857,974
Sundry creditors and provisions	<u>1,263,411,934</u>	<u>1,121,134,399</u>
Trade creditors and provisions	<u>4,164,619,751</u>	<u>6,594,894,330</u>
Provision for leave pay		
Balance at beginning of the year	0	0
Additional provision at end of year	14,272,584	0
Leave taken during the year	<u>0</u>	<u>0</u>
Balance at end of the year	<u>14,272,584</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	3,707,840,910	2,305,805,307
Sales for the year	<u>754,808,617</u>	<u>1,402,035,608</u>
	4,462,649,527	3,707,840,910
Less: Remittances	<u>0</u>	<u>0</u>
Amount owed to GOK at year end	<u>4,462,649,527</u>	<u>3,707,840,910</u>

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

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

	2019 Kshs	2018 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 2019 remained the same as in previous year.

	2019 Kshs	2018 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	3,224,248,932	1,630,728,425
Sales for the year	<u>1,843,020,980</u>	<u>20,353,837,592</u>
	5,067,269,912	21,984,566,017
Less: Remittances	0	18,287,773,060
Maize collections for transport costs	<u>0</u>	<u>472,544,025</u>
	0	<u>18,760,317,085</u>
Balance due to GoK at year end	<u>5,067,269,912</u>	<u>3,224,248,932</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 2018, which reflected a cumulative taxable losses amounting to Kshs.7, 670,510,791. 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

	2019 Kshs	2018 Kshs
Operating profit	(717,262,072)	606,781,989
Add back		
Depreciation	396,928,691	374,564,983
Amortisation	2,396,024	2,294,275
Provision for Stock Shrinkage	2,251,690	7,123,921
Provision for bad and doubtful debts	<u>197,906,495</u>	<u>150,000,000</u>
Operating profit/(loss) before working capital changes	<u>(117,779,172)</u>	<u>1,140,765,168</u>
(Increase)/decrease in Trade debtors and other receivables	1,959,740,801	(11,086,945,704)
(Increase)/decrease in inventories	1,230,577,428	813,290,495
Increase/(decrease) in trade and other payables	167,555,017	5,626,395,307
Increase/(decrease) in Bank Loan	<u>(112,846,873)</u>	<u>1,554,372,682</u>
Cash generated from/(used in) operations	<u>3,127,247,201</u>	<u>(1,952,122,053)</u>

NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

(b) Analysis of cash and cash equivalents

Cash at bank	4,037,872,639	839,246,308
Cash in hand	1,339,310	5,850,148
Cash in Transit	31,554,200	(110,061,226)
Bank Overdraft	(544,116,930)	(308,617,238)
Cash and cash equivalent at year end	<u>3,526,649,219</u>	<u>426,417,993</u>

29. **RELATED PARTY DISCLOSURES**

Transactions with related parties:

(a) Sales to related parties:

	<u>2019</u>	<u>2018</u>
	Kshs	Kshs
Sales to government Parastatals	0	0
Sales to county Governments	0	0
Total	<u>0</u>	<u>0</u>

(b) Expenses incurred on behalf of related party:

Payment of salaries and wages	<u>975,092,543</u>	<u>969,414,430</u>
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(c) Key Management Compensation

Directors Expenses	17,242,394	10,124,439
Compensation to Key Management staff	<u>25,223,220</u>	<u>30,409,488</u>
Total	<u>42,465,614</u>	<u>40,533,927</u>

30. **CONTINGENT LIABILITIES**

Bank guarantees	4,294,000	0
Legal claims against the Board	<u>422,717,719</u>	<u>345,180,000</u>
Total	<u>427,011,719</u>	<u>345,180,000</u>

The Board had contingent liabilities amounting to Kshs. 427,011,719 as at 30th June 2019 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 2019

(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 2019

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>2019</u> Kshs	<u>2018</u> Kshs
Revaluation reserve	9,589,422,793	9,589,422,793
Retained earnings	(7,568,979,377)	(6,851,717,305)
Capital reserve	<u>6,304,142,172</u>	<u>6,304,142,172</u>
Total funds	8,324,585,588	9,041,847,660
Total borrowings	4,677,270,057	4,554,617,238
Less: cash and bank balances	<u>4,070,766,149</u>	<u>735,035,231</u>
Net debt/(excess cash and cash equivalents)	<u>(423,450,618)</u>	<u>(3,819,582,007)</u>
Gearing	(5%)	(42.24%)

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 2019**

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 2019

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 2019**

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 recuse 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 2019**

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)
	attract penalties and interest that have not been assessed and incorporated in the financial statements.	<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.</p> <p>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 2019**

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.1 V 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 2019**

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>	Manager		
	<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>	Cornel Ngelechey	Not resolved	30/06/2017

**NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019**

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)								
	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 30 th June 2016 cannot be confirmed.												
3.1	Debtors and Prepayments 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>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><tr><th>CATEGORY</th><th>AMOUNT (KSHS) 30/06/2015</th><th>AMOUNT (KSHS) 30/06/2016</th><th>MANAGEMENT ACTION</th></tr><tr><td>Debts recommended</td><td>628,084,650</td><td>628,084,650</td><td>Board's approval for</td></tr></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 2019

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><tr><td>for write off</td><td></td><td></td><td>write off</td></tr><tr><td>Debts Under Litigation</td><td>56,934,695</td><td></td><td>Cases in Court</td></tr><tr><td>Collectable Debts</td><td>302,174,606</td><td>56,934,695</td><td>The balance is being pursued</td></tr><tr><td>Total</td><td>987,193,951</td><td>753,589,267</td><td></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 milli 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	The balance is being pursued	Total	987,193,951	753,589,267			
for write off			write off																	
Debts Under Litigation	56,934,695		Cases in Court																	
Collectable Debts	302,174,606	56,934,695	The balance is being pursued																	
Total	987,193,951	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 2019**

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><thead><tr><th></th><th>Old Debts</th><th>Kshs</th></tr></thead><tbody><tr><td>i)</td><td>Cost of Reserved Capacity & Wheat Market Intervention Account on SGR</td><td>342,341,936</td></tr><tr><td>ii)</td><td>17 G.O.K Depots reserved for Famine Relief Programme</td><td>191,916,638</td></tr><tr><td></td><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.</p> <p>However as a prudent measure the management has provided Kshs 280 million as provision for doubtful debts.</p>		Old Debts	Kshs	i)	Cost of Reserved Capacity & Wheat Market Intervention Account on SGR	342,341,936	ii)	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															
i)	Cost of Reserved Capacity & Wheat Market Intervention Account on SGR	342,341,936															
ii)	17 G.O.K Depots reserved for Famine Relief Programme	191,916,638															
	Total	534,258,574															
3.3	Cannon 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 2019**

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 2019**

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	<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 2019**

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</p> <p>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</p> <p>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.</p> <p>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.</p> <p>The Board has been following this matter with the Government with a reminder done vide letters Ref: NCPB/CONF/1/9 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.</p> <p>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.</p> <p>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 2019**

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		<p>Current Status</p> <p>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</p> <p>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.</p> <p>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><thead><tr><th></th><th>SUMMARY</th><th>CURRENT STATUS</th></tr></thead><tbody><tr><td>A.</td><td>Plots Contracted to Surveyors</td><td>30</td></tr><tr><td>B.</td><td>Plots Under Kenya Railways</td><td>5</td></tr><tr><td>C.</td><td>Plots With Lands Registrar</td><td>2</td></tr><tr><td></td><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																		
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**NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019**

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	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>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 2019**

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>1. Mokowe LR. 12852/3</p> <p>2. Muhoroni Township/180</p>			
5.	<p>Staff Costs and Wages</p> <p>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 2019**

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	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 30 th June 2016 as reflected in the financial statements cannot be ascertained.	<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</p> <p>The same will be resolved during next audit review.</p>	GM, F&P		
7.	Finance Costs The statement of financial performance as at 30 th 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>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 2019**

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	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 30 th June 2016 is fairly stated.				

Managing Director

Chairman of the Board

Date.....

Date.....

**NATIONAL CEREALS AND PRODUCE BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

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.....

