

REPUBLIC OF KENYA



REPORT

OF

THE AUDITOR-GENERAL

ON

NATIONAL CEREALS AND PRODUCE BOARD

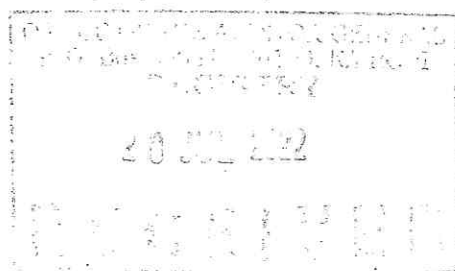
FOR THE YEAR
ENDED 30 JUNE, 2021



NATIONAL CEREALS AND PRODUCE BOARD

Leaders in Trade & Management of Agricultural Commodities

ANNUAL REPORT AND FINANCIAL STATEMENTS



FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2021

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



NCPB IS ISO 9001:2015 CERTIFIED

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I. CORPORATE INFORMATION

Background information

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

Principal Activities

The main activities of the Board are:-

- a) Trading in agricultural produce, i.e. maize, wheat, rice, beans, millet, green grams and sorghum
- b) Management of the National Food Reserves (NFR) on behalf of the Government of Kenya as well as organising and coordinating activities of the Food Balance Sheet Committee (FBSC).
- c) Provision of grain post-harvest services like drying, cleaning, storing, warehousing, fumigation, weighing, bagging and other related services to farmers and other interested parties at affordable rates
- d) Carrying out market intervention on behalf of the government for grains and farm inputs.

Vision Statement

A trusted service provider in agricultural commodity trade and food security.

Mission Statement

To promote food production, trade in agricultural products and promote premier warehousing.

Values

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

- Efficiency
- Team work
- Integrity and Accountability
- Customer Service
- Creativity and Innovation

Directors

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

- | | |
|-------------------------------------|--|
| 1. Mutea Iringo, CBS | - Chairman (Appointed on 8 th April 2018 up to 7 th April 2021) |
| 2. Mr. Joseph Muna Kimote, MBS | - Managing Director (Appointed on 24 th June 2019) |
| 3. Ms. Eunice Wanjiru Kamau Karanja | - Member (Appointed 14 th December 2018) |
| 4. Hon. David Wafula Wekesa Lazaro | - Member (Appointed 6 th June 2018 up to 5 th June 2021) |
| 5. Amb. David M. Mutui | - Member (Appointed 3 rd May 2019) |
| 6. Ms. Jane Waroga | - Member (Appointed 3 rd May 2019) |
| 7. Mr. Philip Tarus | - Member (Rep. Devolution & ASAL's) (Appointed 12 th Oct 2018) |
| 8. Mr. James Ndungu Murea | - Member (Appointed 13 th July 2020) |
| 9. Dr. Stephen Iikii | - Member (Appointed 23 rd April 2020) |
| 10. Mr. Peter Owoko | - Alternate to PS, State Department for Crop Development
MOALF & COOP (Appointed 16 th October 2020) |
| 11. Mr. Isaac Omondi | - Member (Rep. Inspectorate) (Appointed 23 rd January 2021) |

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Corporate Headquarters

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

Corporate Contacts

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

Corporate Bankers

- | | | | |
|--|---|--|--|
| 1. Kenya Commercial Bank
P.O. Box 48400
<u>NAIROBI</u> | 2. Cooperative Bank of Kenya
P.O.Box 48231
<u>NAIROBI</u> | 3. Consolidated Bank
P.O.Box 5113
<u>NAIROBI</u> | 4. National Bank of Kenya
P.O.Box 41862
<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

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II. THE BOARD OF DIRECTORS

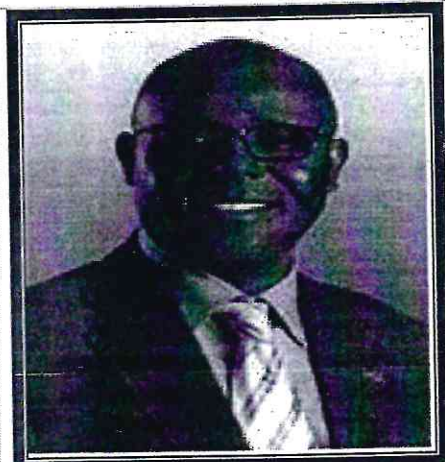


Mutea Iringo, Chairman, CBS

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.



MANAGING DIRECTOR, MR. JOSEPH MUNA KIMOTE, MBS

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.

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David Wafula Wekesa Lazaro

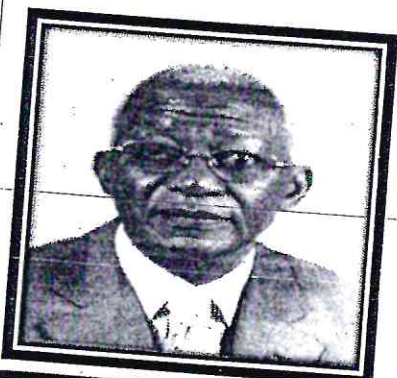
Born 1961, Hon. David Wafula Wekesa Lazaro is an immediate former member of parliament Saboti constituency where he served in various house committees including: Committee on appointments, Committee on Defence and Foreign relations, Select committee on National Government Constituency Development Fund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



Ms. Jane Waroga

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

She has worked in various capacities at Plan International.



AMB. David Mutemi Mutui, MBS

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



Mr. James Ndung'u Mureu

Holds a B.Sc degree in Business Management from Hartford University, USA and is currently studying for an MBA from the Mancosa college of business, South Africa. He also holds a diploma in banking from the Kenya Polytechnic. He has worked at the Central Bank of Kenya for 14 years. He is currently the Managing Director of Prolong Paints K Ltd and the Chairman of Mastrade Holdings Ltd.

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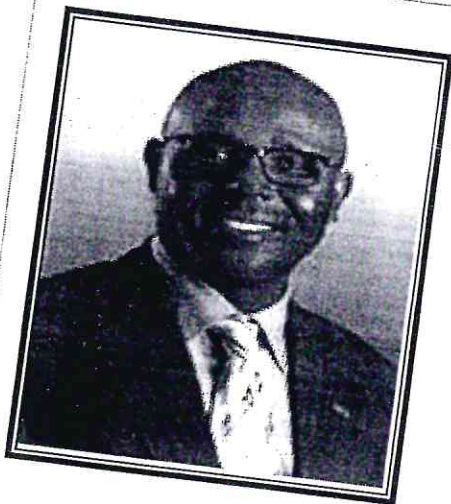
Mr.Philip Tarus, Board Member (Alternate to PS, State Department of Special Programmes)

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

Mr. Peter Owoko - Alternate to PS, State Department for Crop Development MOALF & COOP

Mr.Isaac Omondi - Representative, Inspectorate appointed 23/01/2021

III. LEADERSHIP MANAGEMENT TEAM



MR. JOSEPH MUNA KIMOTE, MBS, Managing Director

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 of Institutional Planning and Development, United States Development Programme, and a Senior Consultant at Deloitte Touche. Joseph is a Full member of the Institute of Directors of Kenya, Kenya Institute of Management and Institute of Human Resource Management. He is also a member of the Board of Directors of Bamburi Cement Limited. He has also previously served as a Board Member National Bank of Kenya Limited, AIC Kijabe Cure International Hospital and Precious Blood Secondary School, Riruta. He has undergone extensive trainings in Advanced Leadership and Corporate Governance Locally and Internationally.



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

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



John M. Matiri, General Manager Marketing And Operation

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

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John K. Ngetich, Corporation Secretary

Joined the Board's Legal Department in 1999 after previously working for Hillian 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.



Evans S. Wasike, Head HR and Administration

Mr. Wasike holds a Bachelor's degree in Human Resource Management from Kenyatta University, Higher Diploma in HRM (KNEC) and a diploma in Labour Studies from Kenya Polytechnic. He is a member of Institute of Human Resource Management (K). He has over 20 years' experience in human resource practice and having worked in various capacities in Human resources and corporate affairs departments.



Nelson Waswa Sawenja, Head of Procurement Services

Mr. Sawenja holds a Master of Science Degree in Procurement, specializing in Purchasing and Supplies from University of Glamorgan-UK and a Graduate Diploma from Chartered Institute of Purchasing and Supplies (CIPS) -UK. He is a Member of CIPS (MCIPS) and Kenya Institute of Management (KIM). He has over 14 years' experience in procurement. Before joining the Board he worked at the UN where he has held several positions with different UN Agencies both locally and internationally.



Ambrose Njoroge Mutua, Head of Internal Audit

Mr. Ambrose Njoroge holds a Bachelor of Commerce Degree in Finance from the University of Nairobi and a CPA (K). He joined the Board in 2007 as a management trainee and rose through the ranks. Prior to his appointment to the current position, Njoroge was the senior internal auditor. He also served as the NCPB regional Auditor in charge of the South Rift Region.



Jones M. Kanyaa, Head of Warehousing & Hub Management

Mr. Kanyaa holds a Bachelor of Science degree in Food Science and Technology from the University of Nairobi and a Certificate in Sustainable Agriculture in An Environmental Perspective from Svalof Weibull AB Sweden (SCIDA). He has attended many courses in Management and is a member of the Kenya Institute of Food Science and Technology. He has more than 20 years' experience working for the Board where he joined as a management trainee and rose to be the Assistant Operations Manager before his current position. He worked as a Government Analyst at the Government Chemist Department before joining the Board.

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Aziz Musa Ngare, Head of ICT

Has worked for the Board in different capacities in ICT for the last 36 years. Holds an IMIS Diploma in Computer Science and a B (Business Information Technology) degree from Lymkokwir University of Creative Technology. He's Responsible for establishing and maintaining a comprehensive and integrate computer-based information processing systems providing c information services required in accordance with the Board's Strategy at minimal cost.

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IV. CHAIRMAN'S STATEMENT

Overview of Economic Review

Kenya's economy was adversely affected by the Coronavirus Disease (COVID-19) and the consequent containment measures both domestically and internationally. This significantly slowed down economic activities in 2020. During the review period, the government's priority was premised on the need to safeguard the lives of Kenyans and Kenyan residents while at the same time cushioning the economy from the effects of COVID-19 pandemic. Therefore, the food security and growth of the agriculture sector in the country has been adversely impacted in a great manner.

Kenya's Real Gross Domestic Product (GDP) was estimated to have contracted by 0.3 per cent in 2020 compared to a revised growth of 5.0 per cent in 2019. The global GDP is projected to grow by 4.2 per cent in 2021 supported by roll out of COVID-19 vaccines and easing of COVID-19 restriction. On the other hand, growth will be held back by weak external demand, delay in distributing COVID-19 vaccines and resurgence of new cases coupled with the viral modification.

In the review period, monetary policy was premised on the need to cushion the economy from the adverse effects of the COVID-19 pandemic containment measures, supporting liquidity and credit access. Central Bank Rate (CBR) was reviewed downwards from 8.50 per cent in November 2019 to 8.25 per cent in January 2020 and maintained 7.00 per cent until the end of 2020. The weighted average interest rates for commercial bank loans and advances declined from 12.24 per cent in 2019 to 12.02 per cent in 2020.

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

In addition to aligning the country's long-term development agenda to Vision 2030, the government has continued to promote the "Big Four" development priority areas i.e. manufacturing, universal healthcare, affordable housing and food security.

Agriculture Subsector Review

In 2020, Agriculture sector recorded mixed performance. Sector growth decelerated to 5.4 per cent compared to 3.0 per cent in 2019. The observed performance is attributed to the COVID-19 pandemic coupled with inadequate short rains during the year under and desert locust incidence in various parts of the country. Aggregate maize production declined by 4.3 per cent from 44.0 million bags in 2019 to 42.1 million bags in 2020. Similarly, coffee production declined and horticultural exports decreased. On the other hand, the volume of marketed milk increased and tea production also increased on account of adequate rainfall in tea growing areas. The availability of mature sugar cane resulted in the volume of sugar cane deliveries increasing. Overall value of marketed agricultural production increased by 9.3 per cent from KSh 466.3 billion in 2019 to KSh 509.7 billion in 2020. Agriculture remains a major driver of growth for the Kenyan economy and is the dominant source of employment. The USAID Overview notes that the agriculture sector contributes approximately 33% of Gross Domestic Product (GDP) and employs more than 40 percent of the total population and 70 percent of the rural population.

Financial Highlights

During the period, NCPB posted a net loss from its core operations amounting to **Kshs.3.11** billion as compared to a loss of Kshs. **1.09** billion posted in 2019/2020 FY

Key Activities

Maize Situation

Estimated production of maize decreased by 4.3 per cent from 44.0 million bags in 2019 to 42.1 million bags in 2020. The decrease is mainly attributable to unfavourable weather conditions during the short rains of 2020. The short rains of 2019 were good especially in the marginal areas giving rise to overall increased production in 2019.

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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 for NCPB Subsidy Component. However, during the year under review, the government paid/liquidated some of its debts for maize subsidy program which eased the operations of the Board. NCPB continued handling assorted fertilizers on agency basis with various suppliers.

Wheat Handling

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

Strategic Focus

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

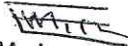
To effectively deliver on the Food Security mandate (Big 4) Agenda NCPB has positioned itself as follows:-

- a) Re-engineering the business process to appropriately respond to the dynamic business environment.
- b) Embracing reforms under Agriculture Sector Transformation and Growth Strategy (ASTGS) and Vision 2030.
- c) Diversifying commercial activities to trade not only in traditional grains like maize but also in cereals such as beans, green grams, rice, sorghum, millet and other foods like powder milk, canned beef and fish. This will boost food production in various parts of the country and enhance national food security.
- d) Partnership with fertilizer, seed and other Agricultural farm input manufacturers to avail products to farmers. We are doing this on agency basis. The affordable farm inputs will no doubt boost food production.
- e) Laying final touches on implementation of WRS. Five sites have been certified by WRS Council. This is a system which will enable farmers to use their grains as collateral and sell when prices are favourable.
- f) Setting up Commercial Agricultural Hubs which are one-stop shops for farmers to obtain inputs, services & information.

NCPB has gone through reforms since 2018 to curb the crisis following severe purge occasioned by irregular purchase of SFR Stocks. The Cabinet directed NCPB to undergo further reforms which the BOD embraced fully. The reforms entailed establishment of two (2) distinct divisions namely:-

- a) NCPB Trading Division (NTD) which will be commercial arm of the NCPB and
- b) The National Food Reserve (NFR) division which will deal with procurement and management of National Food Reserve kitty (formerly handled by the defunct SFR). Under NFR, there will be the Food Balance Sheet Committee (FBSC) which will oversight the NFR. The Balance Sheet Committee will advise on food situation in the country.

To conform to liberalised regime, the NCPB Act Cap 338 is being reviewed to reflect the Boards current mandate and give legal backing to the new NCPB structure and attendant functions.


Mutea Iringo, CBS
CHAIRMAN

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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 2019/2020-2022/2023.

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. Internally, there has been an emphasis to embrace the NCPB-Now principle of teamwork and ownership.

Operations

Kenya is set to import 4 million bags of maize as the country loses its grain reserves to aflatoxin, a toxin caused by mold and therefore maize in the country's Strategic Grain Reserves is unfit for human consumption as it has been contaminated by aflatoxin, which is known to cause cancer and other health problems. The loss comes when the country is still struggling with a locust invasion and the effects of the novel coronavirus pandemic, both of which have adversely affected the country's food chain.

NCPB and the Eastern Africa Grain Council (EAGC) signed a memorandum of understanding to support the implementation of the East African Community (EAC) staple foods quality standards and the management of Aflatoxin for efficient and effective grain trade in the country.

During the year under review NCPB purchased local maize for its commercial function worth Kshs 1.084Billion however NCPB continues to face serious challenges in its turnaround strategies posting losses from its operations amounting to Kshs. 3.11 billion as compared to a loss of Kshs 1.05 billion posted in 2019/2020 FY. The gross sales turnover increased slightly from 692 million in 2019/2020 FY to Kshs 736 million in 2020/2021 FY due to non-participation by the Board in maize and fertilizer businesses. This was compounded by failure of GOK to pay 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.13.29 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. 6.73 billion and Kshs. 0.549 billion 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. 4.16 billion from GOK which was used to pay farmers for maize deliveries in 2017/2018, Millers refund as well as Board's agency fees. By the close of the year, NCPB was still awaiting release of Kshs. 0.549 billion to clear the outstanding debt to farmers for 2017/2018 FY maize deliveries.

On social interventions, NCPB distributed food stuffs and other donations worth Kshs.1.35Million to various communities across the country.

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ISO TRANSITION

The Board was certified in 2015 and was due for re-certification as well as transitioning to ISO 9001:2015 standards in 2018 but the process was delayed due to financial constraints. However, the process was re-embarked on during the year under review and the Board was then certified on 15th July 2021 under ISO 9001:2015 Standard. It is expected that the level of business performance and organizational culture will evolve to align with the expectations of the ISO standard. Implementation of this 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.



Joseph Kimote, MBS
MANAGING DIRECTOR

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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.

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

Risk Management and Compliance

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

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

Conflicts of Interest

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

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Board Sub-committees

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

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

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

Finance and Procurement oversight Committee

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

- | | |
|--------------------------|---------------------------------|
| • Amb. David M. Mutui | Chairperson |
| • Mr. Joseph Kimote, MBS | Managing Director |
| • Ms. Eunice Karanja | Member |
| • Dr. Stephen Ikikii | Member |
| • Mr. John K. Ngetich | Secretary (Corporate secretary) |

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

Audit and Risk Committee

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

- | | |
|--------------------------|------------------------------------|
| • Ms. Jane Waroga | - Chairperson |
| • Hon. David W. Wekesa | Member |
| • Mr. James Ndungu Mureu | Member |
| • Dr. Stephen Ikikii | Member |
| • Mr. Peter Owoko | Member (Rep. MOALF&C) |
| • 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

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: -

- | | |
|--------------------------|-----------------------------------|
| • Mr. James Ndungu Mureu | Chairperson |
| • Mr. Joseph Kimote, MBS | Managing Director |
| • Amb. David M. Mutui | Member |
| • Mr. Philip Tarus | Member (Rep. Devolution & ASAL's) |
| • Mr. Peter Owoko | Member (Rep. MOALF&C) |
| • Mr. John K. Ngetich | Secretary (Corporate secretary) |

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

Human Resource and Legal Affairs Committee

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

- | | |
|----------------------------|-----------------------------------|
| • Hon. David Wafula Wekesa | Chairperson |
| • Mr. Joseph Kimote, MBS | Managing Director |
| • Ms. Jane Waroga | Member |
| • Ms. Eunice Karanja | Member |
| • Mr. Philip Tarus | Member (Rep. Devolution & ASAL's) |
| • Mr. John K. Ngetich | Secretary (Corporate secretary) |

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

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

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Directors' Attendance 2020/2021FY

No	Names	Designation	Full Board	Sub-Committees			
				Finance & Procurement Oversight)	Operations, business Development & Strategic Planning	Human Resource & Legal affairs	Audit
1.	Mr. Mutea Iringo	Chairman	6	0	0	0	0
2.	Amb. David M. Mutui	Member	6	4	4	0	0
3.	Mr. Peter Owoko	Member	3	1	0	0	2
4.	Mr. Isaac Omondi	Rep. (Inspectorate)	1	0	0	0	0
5.	Hon. David Wafula	Member	6	0	2	5	4
6.	Ms. Eunice Karanja	Member	6	4	2	5	0
7.	Mr. Philip Tarus	Rep. (MOD & ASAL's)	6	0	3	3	1
8.	Mr. Stephen Ikikii	Rep. (Treasury)	6	4	0	0	4
9.	Mr. James Mureu	Member	5	0	1	0	2
10.	Ms. Jane Waroga	Member	6	0	0	5	4

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) NCPB is participating in the Warehouse Receipt System (WRS) as a warehouse operator and has competitively leased some of its stores to facilitate others to operate their own warehouses under WRS. In addition, the Board is operating agricultural hub centers in selected depots. Hub centers are one-stop-shops which coordinate a network of value chains to strengthen input and services delivery and enhance market access to farmers.
- (ii) The Ministry of industry, Trade and Cooperatives is still 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 has already ensured five storage facilities country-wide have been certified by WRS Council which shall be used for Warehouse Receipting.

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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 implemented an e-subsidy platform. The platform contains farmers' register with the details on identification, acreage, fertilizer requirements as well as option of paying through Mpesa.

3. Devolution of Agriculture

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

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

CHALLENGES AND OPPORTUNITIES

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

Low working Capital

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

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

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

Update on Restructuring

NCPB has gone through reforms since 2018. The Cabinet directed NCPB to undergo further reforms which the BOD embraced fully. The reforms entailed establishment of two (2) distinct divisions namely:-

- a) NCPB Trading Division (NTD) which will be commercial arm of the NCPB and
- b) The National Food Reserve (NFR) division which will deal with procurement and management of National Food Reserve kitty (formerly handled by the defunct SFR). Under NFR, there will be the Food Balance Sheet Committee (FBSC) which will oversight the NFR. The Balance Sheet Committee will advise on food situation in the country.

To conform to liberalised regime, the NCPB Act Cap 338 is being reviewed to reflect the Board's current mandate and give legal backing to the new NCPB structure and attendant functions.

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FOR THE YEAR ENDED 30TH JUNE 2021

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

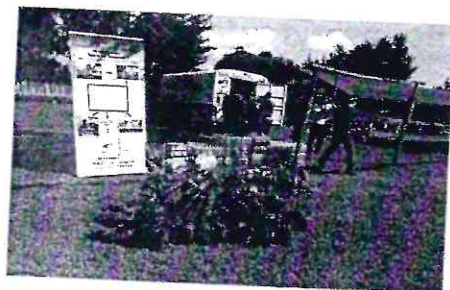
VIII. ENVIRONMENTAL AND SUSTAINABILITY REPORT

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:



Njukinjiru Primary School receives a cheque from NCPB Team.



NCPB Team donates tree seedlings to Laboret Boys High School.

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NCPB Team Donates food stuffs to Imani Children's Home

IX. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2021.

Principal activities

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

Results

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

	2021 Kshs	2020 Kshs
Operating profit before Depreciation & Provisions	(2,076,746,127)	(577,962,951)
Less:		
Depreciation	1,002,382,851	368,816,568
Amortization	1,166,094	2,156,166
Bad and doubtful debts	48,493,711	150,000,000
	<u>1,052,042,656</u>	<u>520,972,734</u>
Net Profit	<u>(3,128,788,783)</u>	<u>(1,098,935,685)</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, 2021.

By Order of the Board


MR JOHN K. NGETICH
CORPORATION SECRETARY
NAIROBI
19TH JULY 2022

NATIONAL CEREALS AND PRODUCE BOARD
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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, 2021. 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, 2021, 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

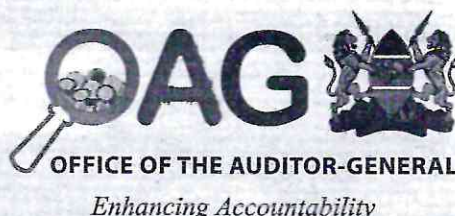
The Board's financial statements were approved by the Board on 19/07/2022 and signed on its behalf by:


Mutea Iringo, CBS
Chairman


Joseph Kimote, MBS
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, 2021

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General

REPORT ON THE FINANCIAL STATEMENTS

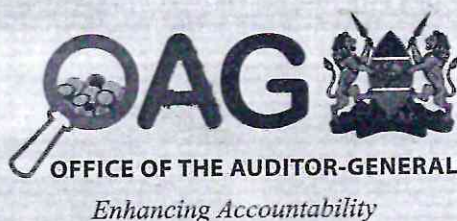
Disclaimer of Opinion

I have audited the accompanying financial statements of National Cereals and Produce Board set out on pages 25 to 62, which comprise of the statement of financial position as at 30 June, 2021, and the statement of profit or loss and other comprehensive incomes, statement of changes in equity, statement of cash flows and the statement of comparison

Report of the Auditor-General on National Cereals and Produce Board for the year ended 30 June, 2021

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON NATIONAL CEREALS AND PRODUCE BOARD FOR THE YEAR ENDED 30 JUNE, 2021

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- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

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REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

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Report of the Auditor-General on National Cereals and Produce Board for the year ended 30 June, 2021

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

Basis for Disclaimer of Opinion

1. Gross Sales

1.1 Material Understatement of Gross Sales

The statement of profit or loss and other comprehensive incomes reflects gross sales amounting to Kshs.736,933,340 and as disclosed in Note 1 to the financial statements. However, an Enterprise Resource Planning (ERP) system in use reflects gross sales of Kshs.918,612,774 resulting in an unexplained material variance of Kshs.181,679,434. Further, the source of the amount of sales in the financial statements could not be confirmed.

1.2 Stock Losses Reported as Sales

The gross sales of Kshs.736,933,340 disclosed in Note 1 to the financial statements include stock losses amounting to Kshs.39,712,458 as per analysis of sales detailed transactions provided for audit. A part of the losses was attributed to transporters but Management did not explain how the losses occurred since the goods were already in the depot. Further, analysis revealed that more than half of the losses occurred at Nyansiongo sub-depot amounting to Kshs.19,165,300.

It was not clear how stock losses were treated as sales and how the stock losses for the earlier years were accounted for in the current year.

1.3 Unaccounted for Sales of Fertilizer

Review of documents relating to purchases of fertilizer in Meru revealed that purchase invoice numbers 81D4082138 of 45,000 bags of fertilizer for Kshs.128,250,000 and 81D4082679 of 45,000 bags of fertilizer for Kshs.115,421,760 both totalling Kshs.243,761,760 were raised and then cancelled using invoice numbers 16C4006134 and 16C4006127 for the same amounts, respectively. Review of detailed sales transaction revealed two sales orders number 11C4029817 of 45,000 bags and 11C4030107 of 45,000 totalling Kshs.270,000,000. However, review of stock cards provided no evidence of the stock movement as reported in the detailed sales transactions. The sales were also reversed in the ERP system with no explanation while the stocks were not traced in the stores.

1.4 Unsupported Sales of Maize

Scrutiny of the store records at Nakuru depot revealed undisclosed sales of white maize (commodity code 1066) amounting to Kshs.1,228,800. Further, the summary sales per

product report generated from the ERP system revealed that 960 bags were sold, which differs with the physical stock card that indicated sales of 2001 bags. In addition, analysis of detailed sales transaction report revealed sales orders for 3145 bags of maize amounting to Kshs.4,025,600.

Further, records at the Eldoret depot indicated that sales totalling Kshs.1,281,000 were realized from sales of maize but this amount differed with the ledger at the headquarters that indicated nil sales.

In addition, the Board updates prices of various products on a monthly basis. However, the detailed sales transactions report revealed instances where the prices of some commodities amounting to Kshs.278,795 were set to zero and in other instances the prices were set below the market price index threshold for similar commodities during the year.

In the circumstances, the accuracy and completeness of the gross sales of Kshs.736,933,340 could not be confirmed.

2. Variances in Opening and Closing Stock Balances

2.1 Variances between Opening Stock in the Financial Statements and the ERP System

The statement of financial position reflects comparative inventories balance of Kshs.158,099,778 under the financial year 2019/2020 and as disclosed in Note 12 to the financial statements. However, comparison between the ERP system opening stock balance of Kshs.1,400,462,177 and the financial statements opening balance of Kshs.158,099,778 revealed a variance of Kshs.1,242,362,399. The Board attributed the variance to errors which occurred when migrating from Navision 2005 to Navision 2017 in February 2018 as well as inter-functional transactions that involved GOK transactions and third-party stocks. However, no justification was provided as to why the variances have taken too long to be investigated and reconciled.

Further, the ERP system generated ledgers reflects negative stock balances on various stock items amounting to Kshs.217,543,763 which have been reflected as having a nil opening balance to conceal the negative stock. No explanation was provided on how the system reflected a negative stock balance and the effect of negative stock in the financial statements.

In addition, the stock records reflect opening stocks with no prices and no change or movement during the year despite the financial statements reflecting procurement of the stock items costing Kshs.1,684,563,251.

2.2 Variances Between Closing Stock in the Financial Statements and the ERP System

The statement of financial position reflects inventories balance of Kshs.1,227,094,135 and as disclosed in Note 12 to the financial statements. However, comparison between the ERP system closing stock balance of Kshs.1,410,085,751 and the financial

statements amount revealed unexplained variance amounting to Kshs.182,991,616. Further, closing stocks amounting to Kshs.115,997,475 had negative balances.

In addition, examination of the closing stocks for various items revealed stocks with no prices and change or movement during the year despite the reported purchases costing Kshs.1,684,563,251 and sales of Kshs.736,933,339 on the stock items.

In the circumstances, the existence, accuracy and completeness of the opening and closing stocks balances of Kshs.158,099,778 and Kshs.1,227,094,135 respectively, could not be confirmed.

3. Directors Expenses

The statement of profit or loss and other comprehensive incomes reflects directors expenses amount of Kshs.10,702,825 as disclosed in Note 7 to the financial statements. Review of Board expenses records revealed that the entity held seven (7) full board meetings during the period under review against the restricted maximum of six (6) for each financial year contrary to Paragraph A (2) of Circular no. OP/CAB.9/1A of 11 March, 2020 which states that board meetings shall be restricted to a maximum six (6) for each financial year.

In the circumstances, Management was in breach of the law.

4. Decline in Performance

The statement of profit or loss and other comprehensive incomes disclosed a decline total revenue from Kshs.1,659,790,172 that was reported in 2019/2020 financial year to Kshs.774,010,342 realized in the current year, resulting in a decline in sales of Kshs.885,779,830 or 53%. Similarly, the operating loss increased from Kshs.1,098,935,685 reported in 2019/2020 to Kshs.3,128,788,783 in the current year under review.

In the circumstances, the Board may not internally generate enough revenue to finance its operations in future without relying on the Government support.

5. Property, Plant and Equipment

The statement of financial position reflects a balance of Kshs.19,139,275,369 in respect of property, plant and equipment as disclosed in Note 10 to the financial statements which includes leasehold land balance of Kshs.5,748,184,763. However, the following unsatisfactory matters were noted:

5.1 Lack of Ownership Documents on Land

As previously reported, the leasehold land includes thirty-four parcels that do not have title deeds. In addition, the leases for three plots in Kericho had not been renewed thus making a total of thirty-seven properties valued at Kshs.581,364,000 whose title documents were not in the custody of the Board.

In addition, the document of title for the land on which the Nakuru Cyprus Bins are located, was not provided for audit. Though Management explained that the surveyors had established that the title had been issued at the Land's Registry, the same was not in the custody of the Board.

Although the Board has title deeds for five parcels of land in Kisii County, which have been fenced and marked with the NCPB signpost, there was encroachment on all the parcels of land.

In Kericho, there was encroachment on one of the parcels of land and a temporary structure constructed by a school. Another parcel along Kericho-Kisumu highway has also been encroached by KENHA as well as one of the neighbors whose perimeter wall extended into the Board's compound.

The Board's land in Sagana Town indicated that the land had been fenced but there was encroachment on one section of the land whereby commercial and residential houses have been constructed. There was no sign post to show that the land belongs to the Board.

Further, it was noted that there is a restraining order on a parcel of at Narok that was issued by the High Court in 2013. Though the Board was allocated 20 acres of this land, it was not possible to physically identify the portion that belongs to the Board.

5.2 Failure to Update the Fixed Assets Register and Tag Assets

Some office furniture, fittings, computers and other equipment held at the depots were not tagged or labeled with a unique number for identification and tracking purposes. Although the staff quarters and other buildings were marked with unique numbers, the same were not reflected in the asset register.

5.3 Unsupported Revaluation Adjustment

Although the statement of financial position reflects a balance of Kshs.19,139,275,369 in respect of property, plant and equipment, a summary of the assets' revaluation report submitted for audit indicated a revaluation amount of Kshs.19,523,400,000. The resultant variance of Kshs.384,124,631 was not explained or reconciled.

In addition, the statement of changes in equity reflects a revaluation reserve adjustment of Kshs.14,233,513,389 and as disclosed in Note 18 to the financial statements that was not supported with any documentation.

5.4 Irregular Procurement of Repairs and Maintenance Works

The property, plant and equipment balance of Kshs.19,139,275,369 includes additions to work in progress of Kshs.100,519,052 in 2020/2021 financial year. The additions of Kshs.100,519,052 includes an amount of Kshs.64,067,080 that was incurred on the carpeting of NCPB compound and associated drainage works at GCP depot. The Board advertised through the local dailies, a tender notice for these works on 5 June, 2020. Following an evaluation of responsive bids, the tender evaluation committee recommended the award of the contract to the lowest evaluated bidder, at a

contract sum of Kshs.62,262,012. Both parties signed a contract agreement on the 15 July, 2020. A certificate of practical completion was issued by the Chief Architect on 21 May, 2021.

However, as soon as the contract performance began it emerged that there was water beneath the base and the pre-existing drainage channel was too narrow. This called for a wider area of excavation and expansion of the drainage system to avoid the perennial flooding of the stores. The contractor notified the Board about the additional civil works that needed to be undertaken for the project to be completed in the most efficient and effective way. This entailed approval of 3 No. contract variation orders. Following a financial appraisal, the additional works were estimated to cost Kshs.12,055,800. However, the Accounting Officer approved the engagement of the contractor for the additional works of Kshs.12,055,800 through a direct procurement method.

Though the Board explained that the required services could not be sourced from different contractor as this could bring about conflict in execution of project; and that the contract could not be canceled mid-way as this would have resulted in unnecessary litigation, the only options available was through direct procurement method for the reason of standardization and compatibility.

However, there was no justification for commencement of the repairs before carrying out a proper prior feasibility study and assessment of the project.

In the circumstances, the accuracy, completeness, and ownership of property, plant and equipment balance of Kshs.19,139,275,369 could not be confirmed.

6. Inaccuracies of Inventory and Stores Records

The statement of financial position reflects inventories balance of Kshs.1,227,094,135 and as disclosed in Note 12 to the financial statements. The stock card for maize item code PP1066 at the Eldoret Depot reflected a nil balance which differed with the physical count of 494 bags of 50kg each as at 30 June, 2021. In addition, the running balances in the stock ledgers at Mwea and Embu Depots were not consistent with the additions and reductions of stock, thereby making it impossible to compare the balances in the stock ledgers against the stock cards balances as well as tracking the stock movement from the stock ledgers.

Further, inspection of sampled depots revealed that the stock card for sindano paddy 45kgs item code 5212 at Sagana Depot with a balance of 7,555 bags valued at Kshs.12,579,075 was omitted from the stock-take aggregation and valuation report for the year under review.

In addition, analysis of opening stock showed stock balances which were classified as goods in transit. Management did not provide explanation on what comprised the goods on transit and how they were cleared during the year.

In the circumstances, the accuracy, existence and completeness of the inventories balance of Kshs.1,227,094,135 could not be confirmed.

7. Long Outstanding Trade Debtors and Prepayments

The statement of financial position reflects trade debtors and prepayments net balance of Kshs.611,529,746 and as disclosed in Note 13 to the financial statements. However, Note 13 to the financial statements reflects trade debtors and prepayments gross balance of Kshs.1,604,675,205 which includes trade debtors of Kshs.1,175,533,409. Included in the amount are debtors totalling Kshs.725,641,237 that have been outstanding for more than eight years.

Further, the gross balance of Kshs.1,604,675,205 also includes an amount of Kshs.115,941,063 relating to staff debtors. Included in the staff debtors is an amount of Kshs.62,606,484 that has been outstanding for more than eight years.

Though a cumulative bad debts provision of Kshs.993,145,460 has been made in the financial statements, it was not possible to confirm if the Board will be able to recover the amounts.

In the circumstances, the recoverability of the trade debtors and prepayments balance of Kshs.611,529,746 could not be confirmed.

8. Bank Overdraft

The statement of financial position reflects a bank overdraft balance of Kshs.6,729,563,152 which represents an increase by Kshs.1,292,203,413 or 24% from previous year's balance of Kshs.5,437,359,739. The bank overdraft is related to Government Fertilizer Subsidy Programme that was being implemented by the Board on behalf of Ministry of Agriculture. As previously reported, Kenya Commercial Bank (KCB) continued to charge 12.5% interest and 10% default rate on the outstanding loan. The overdraft is negatively impacting on the Board's operations.

In the circumstances, the Board continues to incur default charges and interest on the bank overdraft balance of Kshs.6,729,563,152 which may affect its liquidity.

9. Irregular Termination of Employment

The Board carried out a restructuring process during the year under review that resolved to merge the Monitoring and Evaluation section with Research and Development. However, before the Board obtained the necessary approval from State Corporations Advisory Committee, the Management implemented the changes and retired the Manager, Monitoring and Evaluation from service on 3 August, 2020 on grounds of abolition of office without approval as per Clause 11.10 of the HR Manual - Retirement on Abolition/Re-organization of office. Further, the decision of the Board to pay the officer terminal dues as per Clause 11.7 of the HR manual on retirement under the 50-year rule was contradictory since the officer did not apply for it.

In the circumstances, the Board incurred an expenditure of Kshs.1,688,250 for wrongful dismissal which was awarded by the Employment and Labour Relations Court on 24 November, 2021 as well as undetermined charges on legal fees.

10. Non-Operationalization of National Food Reserve and National Trading Divisions

The Board was supposed to operationalize the National Food Reserve and National Trading Divisions as per Circular Ref: MOA/B.1/6A dated 29 April, 2020. The divisions were to deal with matters of Strategic Food Reserve and undertake commercial storage and trading in food commodities. However, the Board has not operationalized the two divisions.

In the circumstances, Management is in breach of the law and the assurance of food security in the country could not be confirmed.

11. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised covering inability to confirm true and fair view of the financial statements, lawfulness and effectiveness in use of public resources, and effectiveness of internal controls, risk management and governance. However, the Management has not resolved the issues or given any explanation for failure to adhere to the guidelines issued by the Public Sector Accounting Standards Board.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

I do not express a conclusion on the effectiveness of internal controls, risk management and governance as required by Section 7(1)(a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

Responsibilities of Management and the Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether

due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

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

The Board of Directors is 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

My responsibility is to conduct an audit of the financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, my responsibility is 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. I also consider internal control, risk management and governance processes and systems in order to give an assurance on the effectiveness of internal controls, risk management and governance 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion on lawfulness and effectiveness

in use of public resources, and on effectiveness of internal controls, risk management and governance.

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.


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

02 September, 2022

NATIONAL CEREALS AND PRODUCE BOARD
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FOR THE YEAR ENDED 30TH JUNE 2021

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

	Note	2021 Kshs	2020 Kshs
Gross Sales	1	736,933,340	692,822,616
Cost of Sales	2	<u>637,397,363</u>	<u>435,454,884</u>
Gross Margin		99,535,977	257,367,732
Gross Margin Gain as a % of Gross sales		14%	37%
ADD:			
Other Incomes	3	<u>674,474,365</u>	<u>1,402,422,440</u>
TOTAL REVENUES		774,010,342	1,659,790,172
OPERATING EXPENSES			
Railway and Road Transport	4	11,329,608	6,663,022
Staff costs and wages	5	995,625,061	978,121,027
Administration expenses	6	357,201,824	350,261,157
Directors expenses	7	10,702,825	16,229,825
Other operating expenses	8	<u>157,611,148</u>	<u>112,492,660</u>
		1,532,470,466	1,463,767,691
Profit/(loss) before depreciation and bad debts		(758,460,124)	196,022,481
Deduct:			
Depreciation expense	10	1,002,382,851	368,816,568
Amortisation expense	11	1,166,094	2,156,166
Bad and doubtful debts	14	<u>48,493,711</u>	<u>150,000,000</u>
		<u>1,052,042,656</u>	<u>520,972,734</u>
Profit/(loss) from operations		(1,810,502,780)	(324,950,253)
Finance costs	9	<u>1,316,972,326</u>	<u>773,985,432</u>
Profit/(loss) Before Tax		(3,127,475,106)	(1,098,935,685)
Income Tax expense		1,313,677	
Net profit/(loss) after tax		(3,128,788,783)	(1,098,935,685)
Other comprehensive income			
Gains on disposal of land			
TOTAL COMPREHENSIVE INCOMES FOR THE YEAR		(3,128,788,783)	(1,098,935,685)

NATIONAL CEREALS AND PRODUCE BOARD
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XIII. STATEMENT OF FINANCIAL POSITION


	Note	2021 Kshs	2020 Kshs
ASSETS			
Non- Current Assets			
Property, Plant and Equipment	10	19,139,275,369	5,703,591,015
Intangible Assets	11	<u>9,181,867</u>	<u>2,526,605</u>
Total Non – Current Assets		<u>19,148,457,236</u>	<u>5,706,117,620</u>
CURRENT ASSETS			
Inventories	12	1,227,094,135	158,099,778
Trade Debtors and Prepayments	13	611,529,746	558,490,528
Government Debtors – New Agency A/c	14	4,905,734,208	9,025,647,945
Government Debtors – MOA Fertiliser A/c	15	7,262,511,638	7,237,996,102
Bank and Cash Balances	16	<u>4,377,053,233</u>	<u>3,788,709,213</u>
Total Current Asset		<u>18,383,922,960</u>	<u>20,768,943,566</u>
TOTAL ASSETS		<u>37,532,380,196</u>	<u>26,475,061,186</u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Capital Fund	17	6,304,142,172	6,304,142,172
Revaluation Reserve	18	23,822,936,182	9,589,422,793
Revenue Reserve	19	<u>(11,796,703,845)</u>	<u>(8,667,915,062)</u>
Capital and Reserves		<u>18,330,374,509</u>	<u>7,225,649,903</u>
CURRENT LIABILITIES			
Bank Overdraft	20	6,729,563,152	5,437,359,739
Short Term Loan	21	-	-
Creditors and Provisions	22	2,060,989,347	2,899,939,795
Creditors – Due to GOK on fertilizer Sales	23	5,342,136,561	5,215,013,011
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	3,787,292,972	4,415,075,082
Taxation	27	<u>964,765,588</u>	<u>964,765,588</u>
Total Current Liabilities		<u>19,202,005,687</u>	<u>19,249,411,282</u>
TOTAL EQUITY AND LIABILITIES		<u>37,532,380,196</u>	<u>26,475,061,186</u>

The financial statements were approved by the Board on 19/07/ 2022 and signed on its behalf by:


CPA. Samuel K. Ndung'u
General Manager Finance & Accounting

ICPAK NO 3001


Joseph Kimote, MBS
Managing Director


Mutea Iringo, CBS
Chairman of the Board

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XIV. STATEMENT OF CHANGES IN EQUITY

	Capital Fund KShs	Revaluation reserve KShs	Restated Revenue reserve KShs	Total KShs
At July 1, 2019	6,304,142,172	9,589,422,793	(7,568,979,377)	8,324,585,588
Net Profit/(loss) for the year			(1,098,935,685)	(1,098,935,685)
At June 30, 2020	6,304,142,172	9,589,422,793	(8,667,915,062)	7,225,649,903
At July 1, 2020	6,304,142,172	9,589,422,793	(8,667,915,062)	7,225,649,903
Net Profit/(loss) for the year			(3,128,788,783)	(3,128,788,783)
Adjustment		14,233,513,389		14,233,513,389
At June 30, 2021	6,304,142,172	23,822,936,182	(11,796,703,845)	18,330,374,509

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XV. STATEMENT OF CASH FLOWS

	Note	2021 Kshs	2020 Kshs
OPERATING ACTIVITIES			
Cash generated from/used in operations	28	<u>(497,407,750)</u>	<u>(5,147,947,321)</u>
Net cash generated from /used in operating activities		<u>(497,407,750)</u>	<u>(5,147,947,321)</u>
INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment	10	<u>(206,451,643)</u>	<u>(27,352,425)</u>
Net increase /(decrease) in cash and cash equivalent (a)		<u>(703,859,393)</u>	<u>(5,175,299,746)</u>
Cash and Cash equivalent at beginning of the year			
Cash at Bank and on Hand	16	3,788,709,213	4,070,766,150
Bank Overdraft	20	<u>(5,437,359,739)</u>	<u>(544,116,930)</u>
Total (b)		<u>(1,648,650,526)</u>	<u>3,526,649,220</u>
Total (a+b)		<u>(2,352,509,919)</u>	<u>(1,648,650,526)</u>
Cash and Cash equivalent at end of the year			
Cash at Bank and on Hand	16	4,377,053,233	3,788,709,213
Bank Overdraft	20	<u>(6,729,563,152)</u>	<u>(5,437,359,739)</u>
		<u>(2,352,509,919)</u>	<u>(1,648,650,526)</u>

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**XVI. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDED 30 JUNE 2021**

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% + / (-)	Ref no.
	2021	2021	2021	2021	2021		
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs		
Gross sales	11,064,362,093	759,687,876	11,824,049,969	736,933,339	(11,087,116,630)	-94%	A
Less: Cost of sales	<u>9,012,116,142</u>	<u>624,140,076</u>	<u>9,636,256,218</u>	<u>637,397,363</u>	<u>(8,998,858,855)</u>	-93%	B
Gross margin	2,052,245,951	135,547,800	2,187,793,751	99,535,976	(2,088,257,775)		
Add:					0		
Other Incomes	2,033,450,183	<u>(1,318,670,223)</u>	714,779,960	674,474,366	(40,305,594)	-6%	C
Total income	4,085,696,134	(1,183,122,423)	2,902,573,711	774,010,342	(2,128,563,369)		
Expenses							
Railway & Transport costs	785,339,570	(245,120,545)	540,219,025	11,329,608	(528,889,417)	-98%	D
Staff costs and wages	1,204,402,400	49,067,935	1,253,470,335	995,625,061	(257,845,274)	-21%	E
Administrative Expenses	472,939,295	38,499,856	511,439,151	367,904,649	(143,534,502)	-28%	F
Other operating expenses	238,747,362	71,698,954	310,446,316	157,611,148	(152,835,168)	-49%	G
Provision	768,290,561	247,316,224	1,015,606,785	1,052,042,655	36,435,870	-4%	H
Finance Cost	<u>138,897,236</u>	<u>1,267,929,401</u>	<u>1,406,826,637</u>	<u>1,316,972,326</u>	<u>(89,854,311)</u>	-6%	I
Total expenditure	3,608,616,424	1,429,391,825	5,038,008,249	3,901,485,447	(1,136,522,802)		
Turnover tax				1,313,677	1,313,677		
Surplus for the Year	<u>477,079,710</u>	<u>(2,612,514,248)</u>	<u>(2,135,434,538)</u>	<u>(3,128,788,783)</u>	<u>(992,040,567)</u>		

Explanatory notes on the differences above:

- The decrease in gross sales is due to drop in sale of fertilizer and pulses
- 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 significantly increased during the year because of implementing revaluation report.
- Finance costs decreased as a result of repayment of some loans and interest rate cap.

NATIONAL CEREALS AND PRODUCE BOARD
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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 2021

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.
Disclosure Initiative (Amendments to IAS 7: Statement of Cash flows)	1 st Jan 2017	Since the Board is fully owned by the Government, it does not pay out dividend or received dividend from any entity.

(ii) Early adoption of standards

The Board did not early – adopt any new or amended standards in year 2021.

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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 recognized 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 recognized 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 recognized 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

**NATIONAL CEREALS AND PRODUCE BOARD
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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. This policy ensures that budget centres are only held responsible for the expenditure directly related to what they have requisitioned and consumed.

(f) Trade and other receivables

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

g) Cash and cash equivalents

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

h) Agency fees/Commission

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

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

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k) Provision for staff leave pay

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

l) Exchange rate differences

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

m) Budget information

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

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

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

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

n) Comparative figures

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

p) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2020.

5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

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

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Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The Board based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Board. Such changes are reflected in the assumptions when they occur.

Useful lives and residual values

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

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

Provisions

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. Gross Sales

	<u>2021</u>	<u>2020</u>
	Kshs	Kshs
Local White Maize	6,227,330	82,412,675
Rice	168,571,923	130,606,793
Paddy	0	0
Wheat	0	0
Gunnies	1,609,410	7,294,876
Maize seed	14,878,085	7,253,200
Beans	7,280,970	7,953,033
Green Grams	1,499,210	1,882,200
Insecticides	946,366	74,244
Fertiliser	535,920,046	455,345,595
	<u>736,933,340</u>	<u>692,822,616</u>

2. Cost of Sales

Opening stocks	184,690,182	426,730,336
Purchase	1,684,563,251	192,726,398
Milling Costs		
Provision for stock shrinkage (2.2%)	27,206,318	688,333
Closing Stocks	<u>(1,259,062,388)</u>	<u>(184,690,182)</u>
Cost of sales	<u>637,397,363</u>	<u>435,454,884</u>

3. Other Incomes

Weigh bridge charges	17,877,830	12,878,204
Bagging and handling charges	15,435,402	8,175,481
Cleaning charges	4,133,563	5,218,231
Rental charges	417,440,387	352,084,865
Drying and fumigation	36,159,360	10,786,449
	<u>491,046,542</u>	<u>389,143,229</u>
(b) Agency services		
Gok agency remuneration	15,621,696	746,044,033
Agency commission from inputs		
	<u>506,668,238</u>	<u>1,135,187,262</u>
(c) Sundry income		
Insurance compensation	0	7,586,301
Sale of tender documents	450,805	1,269,808
Sale of obsolete materials	511,548	
Other miscellaneous income	22,239,677	34,031,571
Other fee and charges		
Gain on disposal of fixed assets	1,753,764	1,449,311
	<u>24,955,794</u>	<u>44,336,991</u>
(d) investment income		
Interest earned on short term		
Investments (FDR)	142,850,333	222,898,187
TOTAL OTHER INCOMES	<u>674,474,365</u>	<u>1,402,422,440</u>

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4. Railway & Road transport costs	<u>11,329,608</u>	<u>6,663,022</u>
	<u>11,329,608</u>	<u>6,663,022</u>
5. Staff Costs	2021	2020
	Kshs	Kshs
Salaries and wages	741,434,663	736,879,112
Board's contribution to PF and SSS	81,109,491	81,982,741
Board's contribution to NSSF	1,797,000	1,886,600
Medical expenses	74,053,331	68,260,557
Leave pay and gratuities	21,436,347	17,069,559
Welfare and training	<u>75,794,229</u>	<u>72,042,458</u>
	<u>995,625,061</u>	<u>978,121,027</u>
The average number of employees at the end of the year was:		
Permanent Employee – Management	473	419
Permanent Employee - Unionisable	267	320
Temporary and contract Employees	<u>48</u>	<u>32</u>
	<u>788</u>	<u>771</u>
6. Administration expenses		
Entertainment	5,484,793	4,272,175
Advertising	4,328,325	2,913,239
Conservancy, light and water	55,727,425	53,270,711
Consumable stores	5,322,558	4,830,814
Insurance	15,603,023	14,874,432
Land rents & rates and siding charges	18,246,270	18,740,734
Maintenance of machinery, furniture & equipment	56,431,382	71,275,710
Maintenance of building, fences, gates, roads and railway sidings	64,405,413	30,796,476
Postage, telegrams and telephone	22,165,098	12,112,012
Printing and stationery	9,635,729	23,625,007
Security expenses	95,657,738	110,101,979
Subscription & Nafaka Newsletter	<u>1,221,712</u>	<u>1,150,806</u>
Uniform and protective clothing	1,620,958	2,047,062
Donations	<u>1,351,400</u>	<u>250,000</u>
	<u>357,201,824</u>	<u>350,261,157</u>
7. Directors expenses	<u>10,702,825</u>	<u>16,229,825</u>
8. Operating Expenses		
Fumigation expenses	4,123,269	8,787,621
Grain dryers operating costs	5,925,134	6,678,287
Commodity handlings costs	4,784,942	6,158,008
Hired transport (Non-commodities)		
Shows and exhibitions	9,698,839	5,983,660
Travelling and subsistence	55,221,512	44,981,835
Vehicles running costs	15,878,478	15,196,641
Audit fee	5,120,690	2,750,000
Legal and other professional fees	<u>56,858,284</u>	<u>21,956,558</u>
	<u>157,611,148</u>	<u>112,492,660</u>

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9. Finance Costs

	2021 Kshs	2020 Kshs
Bank charges	21,198,796	135,110,477
Bank overdraft and Loan interest	<u>1,295,773,530</u>	<u>638,874,954</u>
	<u>1,316,972,326</u>	<u>773,985,432</u>

10. Property, Plant and Equipment (KShs) - 2021

2020/2021	Leasehold Land	Fencing Driveways & civil works	Building and Grain Silos	Motor Vehicles	Plant & Machinery & Equipment	WIP	TOTAL
Cost /Valuation							
1/7/2020	943,121,270	422,430,110	9,581,951,496	109,782,950	598,275,578	42,979,079	11,698,540,481
Additions	0	0	9,585,130	50,185,509	44,264,126	100,519,052	204,553,817
Revaluation adjustment	4,874,868,322	(23,944,870)	(552,285,932)	(7,519,033)	4,169,063,840	0	8,460,182,328
Disposals	0	0	0	(1,638,160)	(4,285,370)	0	(5,923,530)
At 30/06/2021	<u>5,817,989,592</u>	<u>398,485,240</u>	<u>9,039,250,694</u>	<u>150,811,266</u>	<u>4,807,318,174</u>	<u>143,498,131</u>	<u>20,357,353,095</u>
DEPRECIATION							
01/07/2020	196,597,316	159,256,213	5,054,533,923	92,237,923	492,324,091	0	5,994,949,466
Charge for the period	69,804,828	9,892,744	314,360,017	18,743,375	589,581,886	0	1,002,382,851
On Disposal				(1,638,160)	(4,285,370)	0	(5,923,530)
Revaluation adjustment	(196,597,316)	(27,572,924)	(5,028,408,883)	(43,239,833)	(477,512,105)	0	(5,773,331,061)
30/06/2021	<u>69,804,828</u>	<u>141,576,034</u>	<u>340,485,057</u>	<u>66,103,305</u>	<u>600,108,502</u>	<u>0</u>	<u>1,218,077,726</u>
NET BOOK VALUE	<u>5,748,184,763</u>	<u>256,909,206</u>	<u>8,698,765,636</u>	<u>84,707,961</u>	<u>4,207,209,672</u>	<u>143,498,131</u>	<u>19,139,275,369</u>

Property, Plant and Equipment (KShs) - 2020

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

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11. Intangible Assets

	<u>2021</u> Kshs	<u>2020</u> Kshs
COST		
At July 1 2020	33,492,660	32,694,295
Addition	7,821,356	798,365
At 30 th June 2021	<u>41,314,016</u>	<u>33,492,660</u>
AMORTISATION		
At July 1 2020	<u>30,966,055</u>	<u>28,809,889</u>
Charge for the year	1,166,094	2,156,166
At 30 th June 2021	<u>32,132,149</u>	<u>30,966,055</u>
Net Book Value at 30th June 2021	<u>9,181,867</u>	<u>2,526,605</u>

12. Inventories

The closing stocks of commodities valued at Kshs 1,246,483,313 (2020/2021 Kshs 158,099,778) was composed of the following:

	<u>2021</u> Kshs	<u>2020</u> Kshs
(a)Composition of stocks		
Local White maize	1,084,196,560	0
Beans	2,220,390	974,709
Maize Seeds	2,107,011	0
Castor seeds	0	640
Paddy	116,335,607	73,824,190
Local milled rice	30,787,040	29,941,618
Wimbi	0	7,880
Green Grams	376,948	9,750
Fertiliser	7,847,015	63,121,414
Packaging bags (Jute/pp)	15,191,817	16,796,811
Insecticides	0	13,170
Total	<u>1,259,062,388</u>	<u>184,690,182</u>
(b)stock of consumables	<u>105,960,915</u>	<u>84,132,446</u>
Total	<u>1,365,023,303</u>	<u>268,822,628</u>
Less:		
Provision for stock shrinkage (2.2%)	135,646,931	108,440,613
Provision for obsolete consumable stock	2,282,237	2,282,237
Total provision	<u>137,929,168</u>	<u>110,722,850</u>
Total closing stock at year end	<u>1,227,094,135</u>	<u>158,099,778</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	1,175,533,410	1,161,752,135
Staff Debtors	115,941,063	115,668,007
Sundry Debtors and Prepayments	<u>277,107,190</u>	<u>233,817,771</u>
Total	<u>1,604,675,205</u>	<u>1,547,331,455</u>
Less: Provision for bad and doubtful debts(b)	993,145,460	988,840,929
Net Trade and Other receivables	<u>611,529,746</u>	<u>558,490,526</u>

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

Associated Companies	160,077.50	160,077
Debtors for imported Wheat	35,933,463.80	35,933,464
Other trade debtors	794,564,531.28	793,527,186
Staff debtors	95,274,634.65	95,254,155
Sundry debtors	<u>67,212,757.47</u>	<u>63,966,051</u>
Total cumulative provision	<u>993,145,464.70</u>	<u>988,840,934</u>

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

	<u>2021</u>	<u>2020</u>
	<u>Kshs</u>	<u>Kshs</u>
Less than 30 days	11,848,183	3,214,471
Between 30 and 60 days	11,383,824	6,461,172
Between 61 and 90 days	2,021,310	2,181,560
Between 91 and 120 days	2,206,055	4,125,827
Over 120 days	<u>1,148,074,037</u>	<u>1,145,769,103</u>
	<u>1,175,533,409</u>	<u>1,161,752,135</u>

14. Government Debtors – New Agency A/c

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

	<u>Cumulative</u> <u>amounts Due</u> <u>KShs</u>	<u>Amounts</u> <u>Received</u> <u>Kshs</u>	<u>Net bal. due</u> <u>30th June. 2021</u> <u>Kshs</u>	<u>Net bal. due</u> <u>30th June 2020</u> <u>Kshs</u>
(a) Strategic Grain Reserve (old A/c)				
Balance B/F	342,341,936	0	342,341,936	342,341,936
Direct expenses for the Period	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>342,341,936</u>	<u>0</u>	<u>342,341,936</u>	<u>342,341,936</u>
(b) Famine Relief Programme				
Balance B/F	(576,789,198)	(56,030,085)	(632,819,283)	(579,176,872)
Direct expenses for the Period	<u>0</u>	<u>0</u>	<u>0</u>	<u>222,049</u>
Storage charges	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,165,625</u>
Sub Total	<u>(576,789,198)</u>	<u>(56,030,085)</u>	<u>(632,819,283)</u>	<u>(576,789,198)</u>
© GOK 17selected Depots for Famine Relief				
Balance B/F	191,916,638	0	191,916,638	191,916,638
Direct expenses for the Period	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>191,916,638</u>	<u>0</u>	<u>191,916,638</u>	<u>191,916,638</u>
(d) Strategic Grain Reserve(New A/c)				
Balance B/F	9,846,741,764	4,162,032,482	5,684,709,282	9,813,834,145
Direct expenses for the Period	<u>124,529,278</u>	<u>0</u>	<u>124,529,278</u>	<u>(829,383,461)</u>
Storage charges	<u>17,808,733</u>	<u>0</u>	<u>17,808,733</u>	<u>862,291,079</u>
Sub Total	<u>9,989,079,775</u>	<u>4,162,032,482</u>	<u>5,827,047,293</u>	<u>9,846,741,763</u>
Total(a+b+c+d)	<u>9,946,549,151</u>	<u>4,218,062,567</u>	<u>5,728,486,584</u>	<u>9,804,211,140</u>
Less sales proceeds from sale of returned gunnies			<u>0</u>	<u>0</u>
			<u>5,728,486,584</u>	<u>9,804,211,140</u>
Provision for bad & doubtful debts			<u>822,752,376</u>	<u>778,563,195</u>
Net outstanding balance -30th June. 2021			<u>4,905,734,208</u>	<u>9,025,647,945</u>
(e) Provision for bad and doubtful debts on GOK agency relates to old debts which has been outstanding for long and is to be written off over a period of four years.				
Accumulated provision b/f			778,563,195	628,563,195
Provision for the period			<u>44,189,181</u>	<u>150,000,000</u>
Total provision as at 30th June 2021			<u>822,752,376</u>	<u>778,563,195</u>

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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.

	2021 Kshs	2020 Kshs
Balance B/F	<u>7,237,996.102</u>	<u>7,593,776.111</u>
Add cost for the year	<u>24,515,535</u>	<u>211,453,721</u>
	7,262,511,637	7,805,229,832
Less: Amount received during the year	<u>0</u>	<u>567,233,730</u>
Balance due from GOK	<u>7,262,511,637</u>	<u>7,237,996.102</u>

16. **Bank and Cash Balances**

The amount of Kshs 4,377,033,549 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 2021.

	2021 Kshs	2020 Kshs
Cash at Bank	4,370,061,300	3,782,071,219
Cash in hand	185,207	2,834,315
Cash in transit	<u>6,806,726</u>	<u>3,803,677</u>
Total cash at Bank and in hand	<u>4,377,053,233</u>	<u>3,788,709,213</u>

The make-up of bank balances is as follows:

Detailed analysis of the cash and cash equivalents

Financial institution

Account number

KShs

KShs

a) Current account

KCB, Coop bank,
Consolidated bank and
Transnational Bank
Cash in transit
cash in hand
Sub- total

104 Bank A/Cs

4,370,061,300	3,782,071,219
6,806,726	3,803,677
185,207	2,834,315
<u>4,377,053,233</u>	<u>3,788,709,213</u>
(6,729,563,152)	(5,437,359,739)

b) bank Overdraft

Total cash and cash
equivalents

<u>(2,352,509,919)</u>	<u>(1,648,650,526)</u>
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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 14,233,513,389 and together with brought forward balance increased revaluation reserve to Kshs 23,822,936,182

	Leasehold land	Fencing driveways	Building and grain silos	Motor vehicles	Plant & machinery & equipment	Total
Book Cost	4,874,868,322.00	(23,944,870)	(552,285,932)	(7,519,033)	4,169,063,840	8,460,182,327
adjustment						
Accumulated Depreciation adjustment	196,597,316	27,572,924	5,028,408,863	43,239,833	477,512,105	5,773,331,061
TOTAL	5,071,465,638	3,628,054	4,476,122,951	35,720,800	4,646,575,945	14,233,513,388

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19. **NET OPERATING PROFIT**

The Board recorded a Net Operating Loss of Kshs. 3,114,691,933 during the period under review on its commercial activities. The Loss has been transferred to the Revenue Reserves Account leaving a debit balance of Kshs. 11,782,606,995 as shown below;

	<u>2021</u> Kshs	<u>2020</u> Kshs
Balance B/F	(8,667,915,062)	(7,568,979,377)
Net loss/profit for the period	<u>(3,128,788,783)</u>	<u>(1,098,935,685)</u>
	<u>(11,796,703,845)</u>	<u>(8,667,915,062)</u>

20. **BANK OVERDRAFT**

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

	<u>2021</u> Kshs	<u>2020</u> Kshs
Main Bank A/c	<u>6,729,563,152</u>	<u>5,437,359,739</u>

21. **SHORTTERM LOAN**

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

	<u>2021</u> Kshs	<u>2020</u> Kshs
Balance at beginning of the year	4,133,153,127	4,133,153,127
Domestic borrowings during the year	0	0
Transferred to overdraft facility	<u>(4,133,153,127)</u>	<u>(4,133,153,127)</u>
Balance at end of the period	<u>0</u>	<u>0</u>

22. **Trade Creditors and other Payables**

	<u>2021</u> Kshs	<u>2020</u> Kshs
Trade payables	568,158,530	674,768,324
Creditors – owing to farmers	645,663,621	1,081,973,618
Creditors – staff	7,353,943	10,358,451
Sundry creditors and provisions	<u>839,813,252</u>	<u>1,132,839,401</u>
Trade creditors and provisions	<u>2,060,989,346</u>	<u>2,899,939,795</u>

Provision for gratuity pay		
Balance at beginning of the year	13,664,569	0
Additional provision at end of year	0	0
Gratuity taken during the year	<u>0</u>	<u>0</u>
Balance at end of the year	<u>0</u>	<u>0</u>
Provision for annual gratuity pay is based on services rendered by Contract employees up to the end of the year.		

23. **Creditors - Due to GOK – Fertilizer Sales**

Balance B/F	5,215,013,011	4,462,649,527
Sales for the year	<u>127,123,550</u>	<u>752,363,484</u>
	5,342,136,561	5,215,013,011
Less: Remittances	<u>0</u>	<u>0</u>
Amount owed to GOK at year end	<u>5,342,136,561</u>	<u>5,215,013,011</u>

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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,

	2021 Kshs	2020 Kshs
Balance due to GOK as at year end	<u>174,063,028</u>	<u>174,063,028</u>

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

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

	2021 Kshs	2020 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	4,415,075,082	5,067,269,912
Sales for the year	<u>68,896,190</u>	<u>8,206,018,454</u>
	4,483,944,272	13,273,288,366
Less: Remittances	<u>(696,651,300)</u>	<u>(8,858,213,284)</u>
Maize collections for transport costs		
Balance due to Gok at period end	<u>3,787,292,972</u>	<u>4,415,075,082</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 2021, which reflected a cumulative taxable loss amounting to Kshs. 11,796,703,844. 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

	2021 Kshs	2020 Kshs
Operating profit	(3,128,788,783)	(1,098,935,685)
Add back		
Depreciation	1,002,382,851	368,816,568
Amortisation	1,166,094	2,156,166
Provision for Stock Shrinkage	27,206,318	688,333
Provision for bad and doubtful debts	48,493,711	150,000,000
Provision on disposal of Fixed asset	<u>(5,923,530)</u>	<u>(4,642,660)</u>
Operating profit/(loss) before working capital changes	<u>(2,055,463,339)</u>	<u>(581,917,278)</u>
(Increase)/decrease in Trade debtors and other receivables	3,993,865,272	487,738,466
(Increase)/decrease in inventories	(1,096,200,675)	243,895,920
Increase/(decrease) in trade and other payables	(1,339,609,008)	(1,164,511,302)
Increase/(decrease) in Bank Loan	<u>(0)</u>	<u>(4,133,153,127)</u>
Cash generated from/(used in) operations	<u>(497,407,750)</u>	<u>(5,147,947,321)</u>

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(b) Analysis of cash and cash equivalents

Cash at bank	4,370,061,300	3,782,071,219
Cash in hand	185,207	2,834,318
Cash in Transit	6,806,726	3,803,677
Bank Overdraft	<u>(6,729,563,152)</u>	<u>(5,437,359,739)</u>
Cash and cash equivalent at year end	<u>(2,352,509,919)</u>	<u>(1,648,650,525)</u>

29. RELATED PARTY DISCLOSURES

Transactions with related parties:

(a) Sales to related parties:

	<u>2021</u>	<u>2020</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>0</u>	<u>0</u>
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(c) Key Management Compensation

Directors Expenses	10,702,825	16,229,825
Compensation to Key Management staff		
Total	<u>10,702,825</u>	<u>16,229,825</u>

30. CONTINGENT LIABILITIES

	<u>2021</u>	<u>2021</u>
Bank guarantees	24,144,000	19,844,000
Legal claims against the Board	<u>422,717,719</u>	<u>422,717,719</u>
Total	<u>446,861,719</u>	<u>442,561,719</u>

The Board had contingent liabilities amounting to Kshs. 442,561,719 as at 30th June 2021 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:

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(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 doubtful 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.

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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>2021</u> Kshs	<u>2020</u> Kshs
Revaluation reserve	23,822,936,182	9,589,422,793
Retained earnings	(11,796,703,844)	(8,667,915,062)
Capital reserve	<u>6,304,142,172</u>	<u>6,304,142,172</u>
Total funds	18,330,374,510	7,225,649,903
Total debt	19,202,005,687	19,249,411,282
Less: cash and bank balances	<u>4,377,053,233</u>	<u>3,788,709,213</u>
Net debt/(excess cash and cash equivalents)	<u>14,824,952,454</u>	<u>15,460,702,069</u>
Gearing	80%	(214%)

32. INCORPORATION

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).

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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 Ngeich Board Secretary	Not resolved	Ruling made in favour of NCPB but appealed thus the appeal Case is ongoing

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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>			

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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)
	Current Liabilities	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. It is therefore prudent that all cost be accumulated under Gok agency account until such a time the final verdict is issued.			
2.	i) Taxation As previously reported in the previous year, included also in the current liabilities balance of Kshs.10,826,182,855 as at 30 th 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	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 Several attempts were made to seek exemption from Treasury and eventually the National Treasury through letter ref. DFN 415/41/01 dated 7 th 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. NCPB complied immediately by incorporating VAT on all	MD	Not resolved	2017/2022FY

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

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Ref No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		<p>Current Status</p> <p>Following several appeals by NCPB for the matter to be resolved on one hand and efforts by KRA to enforce collection measures on the other hand that resulted into a Notice of distress detaining goods and chattels, the National Assembly Departmental Committee on Agriculture Livestock and Cooperatives took up the matter with a view of finding an amicable solution.</p> <p>The Committee in its sitting on 14th June 2016 directed the CS MOALF and CS National Treasury to meet and find a solution to the matter.</p> <p>They reported back to the Committee on 30th June 2016 where it was agreed that the best option was abandonment of the tax due to difficulty in paying as the budget provision for SFR have reduced substantially.</p> <p>As guided by Commissioner General (KRA), NCPB made a formal request for abandonment vide letter Ref: NCPB/CONF/1/2 dated 5th July 2016 to KRA and the outcome is being awaited. A follow up was made by the PS MOALF vide letter Ref.MOA/LCD/9/4/2/VOL.1V letter-dated 6th October</p>	John Gichuru Finance Manager	Not Resolved	30/06/2022

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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>2016.</p> <p>Following the above development where the SGR Board owned up the tax responsibility and the subsequent resolution by the National Assembly Departmental Committees on Agriculture and Co-operatives for abandonment, the entire tax amount will be reversed from NCPB books of account once the approval is granted.</p> <p>These creditors are arising from trading activities and are being reconciled in order to confirm those that are payable and appropriate action taken.</p>				
	<p>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>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>	Samuel K. Ndung'u	resolved	30/06/2017

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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 30th 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 Head of Finance	Not resolved	30/06/2022
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										

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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>56,934,695</td><td>Cases in Court</td></tr><tr><td>Collectable Debts</td><td>302,174,606</td><td>68,569,922</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 million as provision for doubtful debts.</p>	for write off			write off	Debts Under Litigation	56,934,695	56,934,695	Cases in Court	Collectable Debts	302,174,606	68,569,922	The balance is being pursued	Total	987,193,951	753,589,267			
for write off			write off																	
Debts Under Litigation	56,934,695	56,934,695	Cases in Court																	
Collectable Debts	302,174,606	68,569,922	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																			

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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	Samuel K. Ndung'u GMFA	Not Resolved	30/06/2022
	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													

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	<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>			

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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>			

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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: ZT 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>			

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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><tr><th></th><th>SUMMARY</th><th>CURRENT STATUS</th></tr><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></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	<p>John Ngetich Corporation Secretary and head of legal services</p>	<p>Not Resolved</p>	<p>30/06/2022</p>
	SUMMARY	CURRENT STATUS																		
A.	Plots Contracted to Surveyors	30																		
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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> <ol style="list-style-type: none"> 1. Mokowe LR. 12852/3 2. Muhoroni Township/180 			

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5.	Staff Costs and Wages The staff costs and wages figure of Kshs. 980,064,335 as disclosed in Note 25 to the financial statements include an amount of Kshs. 6,250,848 in respect of acting allowances paid to employees for periods exceeding six months, contrary to public Service Commission Human Resources Policies and Procedures Manual and the Board's human Resource Policy. The Board is therefore in breach of Public Service Commission human Resource policies and its own Human Resource Policy.	<p>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 concurrences from relevant government bodies.</p>	Evans Wasike	resolved	30/06/2020
6.	Operating Stock Note 1(e) to the financial	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	Samuel K. Ndung'u GMFA	resolved	30/06/2019

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	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.	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. As per NCPB policy on valuation a provision of shrinkage of 2.2% of the value of purchase of pulses was made. The stock valuation therefore was as per note 1(e) and NCPB policy The same will be resolved during next audit review.			
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 Kshs. 94,808,230 in respect of bank overdraft and loan interest.	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.	Samuel k. Ndung'u GMFA	resolved	30/06/2020

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	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.....

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IX. APPENDIX 2: INTER-ENTITY TRANSFERS

Break down of Transfers from the State Department of Agriculture and Devolution and Planning				
FY 2020/2021				
Date	Received From	Receipt No.	Amount (KShs)	The purpose and FY to which the amounts relate
0/07/20	MOD&P	52A4434595	22,000,640.00	Purchase of 17,188 Bags of White Maize
0/07/20	MOD&P	52A4434632	30,000,640.00	Purchase of 23,438 Bags of White Maize
10/07/20	MOD&P	52A4434638	969,182.95	Agency Fees - State Dept for Devolution
0/07/20	MOD&P	52A4434629	1,599,342.90	Labour Cost incurred at GCP
30/09/20	MOD&P	52A4459545	234,272.15	Agency Fees
20/09/20	MOD&P	52A4459554	42,339.60	Agency Fees
0/09/20	MOD&P	52A4459517	600,000.00	Maize Handling Charges
30/09/20	MOD&P	52A4459535	583,667.50	Labour Cost incurred at GCP
8-12-20	MOALF	52A4486651	3,080,828,549.20	Outstanding debts partly paid (NCPB Agency fee, farmers 2017/2018, Cess Payment, etc)
28-12-20	MOALF	52A4486692	696,651,300.00	Funds held by NCPB Authorised to pay pending bills
2-01-21	MOALF	52A4491589	384,552,632.90	Pending bills payment farmers for 2017/2018
		Total	4,218,062,567.20	

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

Head of finance
NCPB

Sign

Head of Accounting Unit
Ministry of Agriculture

Sign.....

Head of Accounting Unit
Ministry of Devolution and
National Planning

Sign.....

