

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL CEREALS AND PRODUCE BOARD FOR THE YEAR ENDED 30 JUNE 2017**

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## **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 46, which comprise the statement of financial position as at 30 June 2017, and the statement of profit and loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015.

I 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.

In addition, as required by Article 229(6) of the Constitution, I have not been able to obtain sufficient appropriate audit evidence to confirm that public money has been applied lawfully and in an effective way.

### **Basis for Disclaimer of Opinion**

#### **1. Finance Costs**

As previously reported, the statement of profit and loss and other comprehensive incomes for the year ended 30 June 2017, and as disclosed under Note 9 to the financial statements reflects finance costs totalling Kshs.371,543,371. Included in this figure is Kshs.91,151,001 in respect of bank charges. The management however has not provided documentary evidence to support how the bank charges figure was determined.

Further, examination of documents provided for audit showed that finance costs increased from Kshs.147,846,887 in the previous year to Kshs.371,543,371 representing an increase 151% during the year. This was mainly attributed to an increase in loan interest charged during the year by Kshs.240,515,543. The management has not provided any documentary evidence showing the reasons that might have led to heavy borrowing which in turn resulted into the huge increase in finance costs. In the absence of documentary evidence to support the heavy borrowing during the year, it is not possible to confirm the propriety of the finance costs figure of Kshs. 371,543,371 as at 30 June 2017.

#### **2. Property, Plant and Equipment**

## **2.1. Ownership Documents**

As previously reported, and as disclosed under Note 10 to the financial statements, property, plant and equipment balance of Kshs.6,724,455,101 as at 30 June 2017 includes fifty-five donor funded storage facilities whose ownership has not been clarified. Although in its sitting of 11<sup>th</sup> August 1998, the Public Investment Committee (PIC) 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.

## **2.2. Land**

As previously reported, the property, plant and equipment balance of Kshs.6,724,455,101 also includes thirty-seven parcels of land valued at Kshs.54,383,887 that do not have title deeds. Information available indicates that some of the parcels are leased from Kenya Railways Corporation. The above situation is indicative of significant impairment on some of the properties.

## **2.3. Additions**

Paragraph 16 (a) of the International Accounting Standard (IAS) No.16 states that the cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates. Examination of records of assets purchased during the year however revealed that additions to property, plant and equipment figure of Kshs.46,808,788 during the year includes 16% VAT which is a refundable purchase tax as the Board is VAT registered.

## **2.4. Depreciation**

Note 4 (b) on summary of significant accounting policies states that plant, machinery and computer equipment are depreciated at 12.5% representing eight years of useful life. Further Note 4 (c) on intangible assets states that purchased computer software is amortized over a period of eight years. The management has not explained the economic and technological sense of the software being similarly depreciated for eight years.

Consequently, the property, plant and equipment balance of Kshs.6,724,455,101 reflected in the financial statements is not fairly stated.

## **3. Procurement of 40,000 Metric Tons of Maize**

As previously reported, the Board entered into a fixed sum contract of Kshs.730,968,000 on 26 November 2004 for the supply of 40,000 Metric Tons (MT) of white maize at US Dollars 229 per MT which was not executed. The supplier sought for

arbitration with the Kenya Chapter Institute of Chartered Arbitrators and in July 2009 was awarded US\$ 3,106,000 for breach of contract. On appeal by the Board, the award was increased to US\$6,140,859 being equivalent to Kshs.552,677,382 of which the amount of Kshs.264,864,285 has since been settled through bank attachments leaving a balance of Kshs.251,499,614. Although the case is pending in court awaiting its hearing and determination, it is not possible to ascertain the extent of liability that may arise as a result of the claim in question.

#### **4. Inventories**

- (i) Note 4(d) on summary of significant accounting policies states that, “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 that value of the years purchases of grains and pulses”. Note 12 to the financial statements shows that during the year under audit, the Board made a provision of Kshs.98,376,670 for stock shrinkage. Examination of the schedules provided for audit revealed that the Board purchased wheat, paddy rice, white maize, beans and green grams at a total cost of Kshs.1,283,520,270, Kshs.26,200,000, Kshs.49,950,000, Kshs.23,438,000 and Kshs.8,758,300 respectively during the year. However, no workings have been provided to show how the stock shrinkage provision of Kshs. 98,376,670 was determined.
- (ii) The inventories balance of Kshs.2,455,927,565 reflected in the statement of financial position and as disclosed under Note 12 to the financial statements excludes an amount of Kshs.2,282,237 described as provision for obsolete consumable stock. The management has also not provided details of how this figure was determined and neither does the Board have a policy on how to determine obsolete consumable stock.

Under the circumstances, it is not possible to confirm whether the inventories figure of Kshs.2,455,927,565 as at 30 June 2017 is fairly stated.

#### **5. Current Liabilities**

- (i) As reported in the previous year, included in the total current liabilities balance of Kshs.11,695,622,483 as at 30 June 2017 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.464,430,643.61 tax arrears that has remained outstanding since 2002. Although this amount continues to attract penalties and interest, the same have not been assessed and incorporated in these financial statements.
- (ii) Similarly, and as previously reported, the creditors and provisions balance of Kshs.3,354,250,076 as disclosed under Note 22 to the financial statements includes amounts of Kshs.630,689,332, Kshs.7,359,471, and Kshs.293,269,883 relating to trade creditors, staff creditors and sundry creditors and provisions

respectively that have been outstanding since July 2007. Although the management has provided an analysis showing reductions of Kshs.680,013,116 and Kshs.3,341,164 in respect of trade creditors and staff creditors respectively during the year, no evidence has been provided for verification showing how the reduction of the liabilities was achieved. In addition, no satisfactory reason has been given for failure to settle the liabilities.

- (iii) As reported in the previous year, the statement of financial position reflects an amount of Kshs.431,187,701 against bank overdraft. A review of bank reconciliation statement for the account maintained at KCB Kencom Branch A/c No. 1107165679 revealed amounts of Kshs.4,169,758 described as payments in bank not in cash book and Kshs.1,384,815 described as receipts in the cash book not in bank statement that have been outstanding since August 2003. No explanation has been provided for these long outstanding amounts. Consequently, the accuracy of the overdraft amount of Kshs.431,187,701 as at 30 June 2017 cannot be confirmed.

## **6. Bad and Doubtful Debts**

The statement of profit and loss and other comprehensive income for the year ended 30 June 2017 reflects an amount of Kshs.48,000,000 relating to provision for bad and doubtful debts in the year under review, which is similar to the previous year's amount. No explanation or documentation was provided to support the amount. It is, therefore, not clear whether the provision is specific or general.

## **7. Trade Debtors and Other Receivables**

- (i) As previously reported, trade debtors and other receivables gross balance of Kshs.1,321,887,915 as disclosed under Note 13 to the financial statements includes trade debtors totalling Kshs.1,019,091,082. However, included in the amount are debtors totalling Kshs.831,604,397 representing 82% of trade debtors that have been outstanding for more than five years. Although a cumulative bad debts provision of Kshs.943,557,914 has been made 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 appears to have been taken to ensure recovery of these debts.
- (ii) Note 4(f) on summary of significant accounting policies states that, provision for bad and doubtful debts is made on the basis of specific debtors and consists of 100% specific provision for some debtors and a general provision of 7.5% on all outstanding trade debts at the balance sheet date. However, examination of available information and Note 13 to the financial statements does not show that a general provision of 7.5% was made on all outstanding debts at the balance sheet date. This accounting policy is therefore not consistently applied.

- (iii) As disclosed in Note 13 to the financial statements, trade and other receivables gross figure of Kshs.1,321,887,915, includes Kshs.141,790,355 relating to sundry debtors and prepayments. This figure, however, is net of Kshs.9,602,346 negative balances contrary to paragraph 32 of the International Accounting Standard (IAS) No.1, which states that an entity shall not offset assets and liabilities or income and expenses unless required or permitted by the International Financial Reporting Standards (IFRS).
- (iv) Further, trade and other receivables gross figure includes Kshs.124,912,936 relating to staff debtors. Examination of documents, however, revealed that included in the figure for staff debtors is Kshs.110,219,900 in respect of cash loss, imprests and other losses and stock loss. Although the management has made a specific provision of Kshs.50,891,834 for the same, the provision does not seem adequate. The management has not explained how these losses occurred and the steps being taken by the Board to ensure both recovery of the losses and prevent future losses from happening.

In view of the above, I am not able to confirm whether trade and other receivables net balance of Kshs.378,330,001 as at 30 June 2017 is fairly stated.

#### **8. Government Debtors-MOA Fertilizer Account**

As previously reported, Government Debtors-MOA Fertilizer Account balance of 4,211,100,117 as at 30 June 2017 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, when the Board will be able to recover the amounts. No provision for bad and doubtful debts has been made in this regard.

#### **9. Government Market Interventions Account**

The statement of financial position and as disclosed under Note 24 to the financial statements reflects a balance of Kshs.174,063,028 relating to GOK market intervention Account. Although the management has disclosed under Note 24 to the financial statements that this balance relates to retained surplus from 1994/1995 maize intervention and subsequent maize export transaction in 1995/1996 and 1996/1997 retained to offset against other GOK debts which are still under review, no documentary evidence was produced for verification. In the circumstances, it has not been possible to confirm whether Government Market Interventions Account figure of Kshs.174,063,028 as at 30 June 2017 is fairly stated.

#### **10. Government Agency Programme (Old Account)**

The statement of financial position and as disclosed under Note 25 to the financial statements reflects a balance of Kshs.143,195,039 in respect to Government Agency

Account - Operating Results (Old Account). Although the management has disclosed under Note 25 to the financial statements that this figure relates to the balance held on behalf of the government from cereal sales received by the Board on behalf of the government prior to the liberalization of cereals in 1993, no documentary evidence has been provided for verification. In addition, no explanation has been given as to why the Board has not remitted this amount to the government since 1993. Under the circumstances, it is not possible to ascertain the accuracy of the figure of Kshs.143,195,039 in respect to Government Agency -Old Account as at 30 June 2017.

## **11. Staff Costs and Wages**

As previously reported, staff costs and wages figure of Kshs.976,439,206 for 2016/2017 as disclosed in Note 5 to the financial statements also include an amount of Kshs.10,839,672 in respect of acting allowances paid to employees for periods exceeding six months, contrary to Public Service Commission Human Resource Policies and Procedures Manual of May 2016 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.

## **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such 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.

In preparing the financial statements, management is responsible for assessing the Board's ability to continue as a going concern, disclosing, as applicable, matters related going concern and using the applicable basis of accounting unless the management either intends to liquidate the Board or cease operations, or have no realistic alternative but to do so.

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.

Those charged with governance are responsible for overseeing the Board's financial reporting process.

## **Auditor-General's Responsibilities for the Audit of the Financial Statements**

My responsibility is to conduct an audit of the National Cereals and Produce Board's 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.

I am independent of the National Cereals and Produce Board in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with ISSAI and in accordance with other requirements applicable to performing audits of financial statements in Kenya.



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

**Nairobi**

**25 June 2018**