

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL CEREALS AND PRODUCE BOARD FOR THE YEAR ENDED 30 JUNE 2018**

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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 2018, and the statement of profit and loss and other comprehensive income, statement of changes in equity, statement of cash flow, 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.

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

#### **1. Sale of fertilizer**

The statement of profit and loss and other comprehensive income reflects an amount of Kshs.8,216,466,041 under gross sales. As disclosed in Note 1 to the financial statements, the gross sales figure includes an amount of Kshs.7,977,795,840 described as sale of fertilizer, which further include an amount of Kshs.4,447,912,423 relating to fertilizer subsidy receivable from the State Department for Crop Development. The management has, however, not provided any documents showing how this figure was determined. In the absence of supporting documents, it has not been possible to confirm the completeness, accuracy and validity of the cash inflows accrued from fertilizer subsidy sales amounting to Kshs.4,447,912,423 for the year ended 30 June 2018.

#### **2. Other Incomes**

The statement of profit and loss and other comprehensive income reflects an amount of Kshs.2,218,540,378 under other incomes and as disclosed under Note 3 to the financial statements includes an amount of Kshs.355,831,170 relating to rental income. Examination of lease documents however revealed that 128 lease agreements had expired some dating back to 2013 but the lessees were still occupying the properties. In addition, the Board does not have a policy on management of rental properties. In the circumstances, it is not possible to confirm whether rental income of Kshs.355,831,170 reported for the year ended 30 June 2018 is fairly stated.

#### **3. Cost of Sales**

The statement of profit and loss and other comprehensive income reflects an amount of Kshs.6,603,758,017 under cost of sales. The amount includes Kshs.5,749,587,160 in

respect of purchases made during the year out of which Kshs.5,339,739,550 relate to purchase of fertilizer. Examination of records relating to purchase of fertilizer, however, revealed that the Board paid Export Trading Company Kshs.76,784,570 in respect of reimbursement for loading, offloading and stacking charges for various brands of fertilizer of 150,000 MT supplied during the year. The payment was made after confirmation by the Accounting Officer State Department for Crop Development vide letter No MOAL&F/FERTILIZER /2016-2017/87 dated 2 May, 2017 that charges were payable though not provided for in the contract. No evidence has been produced for audit review to confirm that these costs were to be incurred by the Board. In the absence of evidence, it is not clear whether the expenditure was a proper charge to public fund.

#### **4. Finance Cost**

- (i) The statement of profit and loss and other comprehensive incomes reflects an amount of Kshs.592,540,061 under finance costs, and as disclosed under Note 9 to the financial statements the amounts include Kshs.104,230,875 in respect of bank charges and Kshs.488,309,186 relating to bank overdraft and loan interest. The Board has continued to incur high interest charges on the bank loans for purposes of financing the purchase of subsidized fertilizer through letters of credit from Kenya Commercial Bank which have maturity periods of 180 days. These letters of credits are eventually converted to loans on maturity since the Board has never been able to pay within the agreed period occasioning the high interests charges.
- (ii) Further, the management has not provided documentary evidence to support and show how the bank charges figure Kshs.104,230,875 was determined. Consequently, the validity, completeness and accuracy of the amount of Kshs.104,230,875 cannot be ascertained.

#### **5. Bad and Doubtful Debts**

The statement of profit and other comprehensive income for the year ended 30 June 2018 reflects an amount of Kshs.150,000,000 (2017-Kshs.48,000,000) relating to provision for bad and doubtful debts. No explanation or documentation was provided to support the amount. It is, therefore, not clear whether the provision is specific or general.

#### **6. Staff Costs and Wages**

The staff costs and wages totalling Kshs.969,414,430 (2017 – Kshs.976,414,430) as disclosed in Note 5 to the financial statements includes an amount of Kshs.17,255,180 (2017 – Kshs.10,839,672) in respect of acting allowances paid to employees for periods exceeding six months contrary to the 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.

#### **7. Operating Expenses**

The statement of profit and loss and other comprehensive income for the year ended 30 June 2018 reflects under operating expenses; railway and road transport expenses of

Kshs.635,714,112, administrative expenses of Kshs.311,081,773, directors' expenses of Kshs.10,124,439 and other operating expenses of Kshs.178,732,341 that have not been supported with documentary evidence. In the absence of supporting documents, it is not possible to confirm whether the operating expenses totalling Kshs.2,105,067,094 for the year ended 30 June 2018 are fairly stated.

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

### **8.1. Ownership Documents**

As previously reported, and as disclosed under Note 10 to the financial statements, property, plant and equipment net balance of Kshs.6,411,811,785 as at 30 June 2018 still include fifty-five donor funded storage facilities whose ownership has not been clarified. Although in its sitting of 11 August, 1998, the Public Investment Committee (PIC) directed both the parent Ministry and Treasury to look into the matter with a view to formerly transferring the facilities to the Board, no progress appears to have been recorded as at the date of this report.

### **8.2. Land**

As previously reported, the property, plant and equipment balance of Kshs.6,411,811,785 still include 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.

### **8.3. 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 prices, 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.61,921,667 during the year includes 16% VAT which is a refundable purchase tax as the Board is VAT registered. Consequently, the property, plant and equipment balance of Kshs.6,411,811,785 reflected in the financial statement if not fairly stated.

### **8.4. 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.

## **9. 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. 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.

## **10. Inventories**

As previously reported, 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 year’s 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.105,500,591 for stock shrinkage. Examination of the schedules provided for audit revealed that the Board purchased beans, fertilizer and rice at a cost of Kshs.157,643,700, Kshs.5,719,134,745 and Kshs.252,203,910, respectively during the year. However, no workings have been provided to show how the stock shrinkage provision of Kshs.105,500,591 was determined. Under the circumstances, it is not possible to confirm whether the inventories figure of Kshs.1,635,513,148 as at 30 June 2018 is fairly stated.

## **11. Current Liabilities**

The statement of financial position reflects an amount of Kshs.19,363,625,067 under total current liabilities, which comprise of various short term liabilities. A review of the current liabilities revealed the following unsatisfactory matters:

- (i) Note 22 to the financial statements discloses trade payables balance of Kshs.1,935,644,390. This figure however includes Kshs.1,129,439,325.79 owed to Export Trading Company for the supply of fertilizer. It is not clear and the management has not explained how the liability arose since the fertilizer was procured through a letter of credit from Kenya Commercial Bank which was subsequently converted into a loan on maturity.
- (ii) The statement of financial position’s trade creditors and other payables balance of Kshs.6,594,894,330 and as disclosed under Note 22 to the financial statements includes a balance of Kshs.3,527,257,567 in respect of amount owed to maize farmers (2017- Kshs.12,420,866) representing an increase of Kshs.2,502,307,382 or 201%. The management has, however, not provided documents to support the figure. In addition, this figure differs with the figure reported in the financial statements of Strategic Food Reserve Fund of Kshs.3,406,940,258 by a variance of Kshs.120,317,307 which has not been reconciled.
- (iii) Trade creditors and other payables further includes sundry payables and provisions figure of Kshs.1,121,134,399. Examination of records, however, revealed that the figure includes Kshs.4,896,012 in respect of excess cash, stale cheques of Kshs.62,952,679 and an amount of Kshs.745,816 described as cash loss. The management has not provided documents to support these figures.

- (iv) Furthermore, Note 26 to the financial statements reflects creditors due to GOK on SGR maize sales balance of Kshs.3,224,248,932 as at 30 June 2018 and includes Kshs.472,544,025 in respect of maize collection for transport costs whose documents were not provided for audit verification. In the absence of documents, it is not possible to confirm the accuracy of this figure.
- (v) As reported in the previous year, included in the total current liabilities balance of Kshs.19,363,625,067 as at 30 June 2018 is an amount of Kshs.964,765,588 in respect of Value Added Tax arrears payable to Kenya Revenue Authority on agencies services to government. This figure includes Kshs.464,430,643.61 tax arrears that have remained outstanding since 2002. Although the tax arrears continue to attract penalties and interest, the same have not been assessed and incorporated in these financial statements.
- (vi) Similarly, and as previously reported, the sundry creditors and provisions balance of Kshs.1,121,134,399 as disclosed under Note 22 to the financial statements includes amounts of Kshs.630,639,332, Kshs.7,359,471 and Kshs.293,269,83 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 a reduction of Kshs.215,883,118 and an increase of Kshs.2,419,594 in respect of trade creditors and staff creditors, respectively during the year, no evidence has been provided for verification showing how the reduction of liabilities was achieved. In addition, no satisfactory reason has been given for failure to settle the liabilities.
- (vii) As reported in the previous year, the statement of financial position reflects an amount of Kshs.308,617,238 against bank overdraft. This figure has however not been supported by a bank reconciliation statement and a bank confirmation certificate. Consequently, the accuracy of the overdraft amount of Kshs.308,617,238 as at 30 June 2018 cannot be confirmed.
- (viii) In addition, the statement of financial position reflects amounts of Kshs.174,063,028 and Kshs.143,195,039 under Creditors – due to GOK on past market intervention and government agency programme (old a/c), respectively that have been outstanding for more than two years. No reasons have been provided to have the balances cleared in these financial statements.

## **12. Trade Debtors and Prepayments**

- (i) As previously reported and as disclosed under Note 13 to the financial statements, trade debtors and other receivables gross balance of Kshs.1,890,901,549 includes trade debtors totalling Kshs.1,541,943,940. However, included in the amount are debtors totalling Kshs.831,604,397 representing 53.9% of trade debtors that have been outstanding for more than seven years. Although a cumulative bad debts provision of Kshs.943,557,914 has been made in these 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) As previously reported, 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.1,890,901,549, includes Kshs.188,572,981 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 prepayments net balance of Kshs.947,343,634 as at 30 June 2018 is fairly stated.
- (v) During the year under review, the Government Debtors-New Agency A/c balance as disclosed under Note 14 to the financial statements increased by Kshs.8,294,581,903 from Kshs.2,827,107,940 reported in 2016/2017 financial year to Kshs.11,121,689,843. The management has not provided documents for audit review to support the increment.
- (vi) Note 15 to the financial statements reflects Kshs.7,548,486,738 (2017-Kshs.4,211,100,117) relating to Government Debtors-MOA Fertilizer A/c. However, no documents in respect of the same have been produced for audit review. In the absence of documentary evidence, it is not possible to confirm the accuracy of Kshs.7,548,486,738 in respect to Government Debtors-MOA Fertilizer A/c as at 30 June 2018.

In addition, as previously reported, Government Debtors-MOA Fertilizer Account balance of Kshs.7,548,486,738 as at 30 June 2018 still include 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.

### **13. Creditors-Due to GOK on Past Market Interventions**

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 creditors - due to GOK past market intervention. 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 has been produced for verification. In the circumstances, it has not been possible to confirm whether Government Market Interventions Account figure of Kshs.174, 063,026 as at 30 June, 2018 is fairly stated.

### **14. 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, 2018.

### **15. Bank and Cash Balances**

The statement of financial position and as disclosed under Note 16 to the financial statements reflects Kshs.735,035,231 relating to bank and cash balances. No documents have been produced to support the balance. In view of the above, it has not been possible to confirm the accuracy and completeness of the bank and cash balances figure of Kshs.735,035,231 as at 30 June 2018.

### **16. Transactions with the Strategic Grain Reserve Fund**

#### **16.1. Overstated Cost of Imported Maize**

Records maintained by the Board reflects an amount of Kshs.31,288,225,350 as having been the value of maize handled by the Board on behalf of the Strategic Grain Reserve Fund during the year. This amount however differs with the amount of Kshs.37,222,645,795 reflected in the financial statements and Kshs.34,822,028,282 reflected in the Notes to the financial statements of the Strategic Grain Reserve Fund by Kshs.3,533,802,932 and Kshs.5,934,420,440 respectively. No reconciliations or explanations have been provided for these variances.

## 16.2. Farmers who Supplied Over 10,000 Bags of Maize

Examination of records maintained by NCPB in the eleven sampled depots, and a review of guidelines issued by the Ministry referenced MOA/LCD/9/12/8018 and dated 1 October 2017 on purchase of maize, did not reveal the maximum bags of maize to be purchased from an individual farmer. There was no requirement for the farmers to provide title deeds, lease agreement or size of the land under cultivation. Although there were no set maximum limits of maize delivery, the practicability of delivering 10,000 bags and above from a single farmer could not be verified given the average production per acre. It was observed that 34 farmers delivered more than 10,000 bags each during the year. No questions were raised by the Board as to the source of such huge consignments.

## 16.3. Out-sourcing of Procurement Function

During the year under review, the Fund procured imported maize worth Kshs.34,822,028,282 from various importers. However, the function of receiving and inspection of the maize was done by the Board. There was no evidence that the Accounting Officer responsible for the Fund and Board entered into an agreement on the performance of its procurement function of receipt, inspection, and recording to ensure the right quality and quantity were received, and to ensure adherence to Public Procurement and Disposal Act, 2015 on receipt and inspection of procured maize. This resulted in payment of maize suppliers without the certificate of inspection and acceptance certificate or report.

In the absence of any legal agreement, it was not possible to confirm that the quality and quantity of maize received by Board on behalf of the Fund, was as per the specification of the Ministry.

## 16.4. Inventories held on Behalf of the Fund

The Board holds stock of maize, other cereals and products in their silos on behalf of various parties including private millers. The following unsatisfactory matters were observed in respect of stocks held on behalf of the Strategic Grain Fund:

### 16.4.1. Condemned Maize

Maize valued at Kshs.342,482,895 and stored in various NCPB depots was found to contain high levels of aflatoxin by the Ministry of Health and therefore not fit for human consumption as analyzed below:

NCPB Depot	Quantity in Bags (90 Kgs)	Value Kshs.
Machakos	10,710	20,809,530
Nairobi	5,427	10,544,661
Meru	14,460	28,095,780
Isiolo	11,663	22,661,209
Migori	1,504	2,922,272
Nakuru	54,597	106,081,971
Lugari	26,264	51,030,952
Kitale	51,640	100,336,520



NCPB Depot	Quantity in Bags (90 Kgs)	Value Kshs.
<b>Total</b>	<b>176,265</b>	<b>342,482,895</b>

In addition, opening stock of Kshs.3,061,708,813 that had been indicated as available in the various Board's depots was written off from the records of the Fund. It is not clear how the amount was written off from the records of the Fund and the Board.

#### 16.4.2. Un Accounted for Bags of Maize

Records maintained by the Strategic Grain Reserve Fund shows that 3,913,098 bags of maize comprising of 287,431 bags and 3,625,667 bags of imported maize and local maize, respectively were in stock as at year end. However, this differs with the store records maintained by the Board, which shows 6,521,481 bags of maize as at year end.

The figure of 3,913,098 bags of maize also differs with the record of maize procured during the year, where it is indicated that none of the locally procured maize was sold but out of the imported bags of maize, which totaled, 15,597,871 bags, only 8,832,452 bags were sold, leaving a balance of 6,765,419 bags unsold. Other records show that only 287,431 bags of the imported maize remained unsold, leaving a balance of 6,477,988 unaccounted for.

Further, the stores records provided by the Board shows that it had opening stock of 1,358,678 bags, and procured 22,174,062 bags and at the same time sold 15,898,455 bags and had closing stock of 6,521,481 bags of maize. These figures were not reconciled with the figure of sales and closing stock.

Consequently, the records maintained by the Board on behalf of the Strategic Grain Reserve Fund are incomplete and inaccurate.

#### 16.4.3. Maize in Silos

According to the parent Ministry's oversight board minutes of 6 April 2018, Minute No. 4/04/2018, it was indicated that it is not suitable for maize to be stored for more than six months in the silos to avoid deterioration and loss in value. It was, however, observed that as at 30 June 2018, 2,098,516 bags of 90kg valued Kshs.4,077,416,588 were stored in silos in various NCPB depots. The maize had been held in the stores for more than six months as detailed below:

Name Of The Depots	Quantity – Bags
<b>Nakuru</b>	394,978 * 90kg
<b>Eldoret</b>	544,555 *90 kg
<b>Moi's bridge</b>	950,407 *90kg
<b>Kisumu</b>	205,876 *90kg
<b>Total</b>	<b>2,098,516 *90kg</b>

No reason was given for the failure by the Board to have the maize stock properly bagged and stored.

In addition, a visit to Shimanzi and Changamwe depots revealed that there were 200,262 bags of maize which were stored in polypropylene bags. The maize is likely to deteriorate in quality due to high level of humidity in the Coast region.

#### **16.4.4. Powdered Milk**

Records maintained by the Strategic Grain Reserve Fund shows that the Board has in its stock powdered milk from Kenya Creameries Cooperative (KCC) amounting to Kshs.700,000,000, that has been outstanding in the records for over two years but no record of such stock exists at the Board. Under the circumstances, the existence of the powdered milk stock could not be confirmed.

#### **16.4.5. Annual Stocktaking and Maintenance of Stock Records**

It was noted that Article 8 of the 5th agreement signed on 10 August 2016 between Strategic Grain Reserve Fund and the Board stated that the Principal and Agency should conduct joint annual stocktaking to establish the stocks levels. Further, examination of the Fund's 2017/2018 budget shows that there was a budget provision of Kshs.2 million for an independent stock taking through a consultant. However contrary to the requirements of the Agreement, no report of joint annual physical stocktaking was provided for audit verification.

In addition, the Agent is supposed to keep separate records at all times for stock of the Principal held in its stores. The records are expected to have the date of purchase, general quality condition and other relevant information for continuous assessment of the Principal's stock position. In the sample of twelve depots visited, there was no evidence that the Agent (Board) had maintained separate records, contrary to the agreement. In the absence of the reports, it was not possible to confirm if annual joint stocktaking was done as required by the agency agreement.

### **17. Procurement, Delivery and Distribution of Fertilizer on Behalf of Parent Ministry**

#### **17.1. Amount and Value of Fertilizer Ordered**

The State Department of Agriculture ordered 932,000 bags of various types of fertilizer of 50 kilograms each, with the total weightage of 46,600 metric tonnes. Out of these amounts, 40,000 metric tonnes were ordered from M/s Export Trading Company Limited, while the balance of 6,600 metric tonnes were ordered from Access to Government Procurement Opportunities (AGPO) firms. The total value of fertilizer ordered by the State Department was Kshs.2,393,092,810.

In addition, the National Cereals and Produce Board (NCPB) was assigned to order 115,700 metric tonnes of various types of fertilizer by the State Department in the year. The State Department had already in the meantime entered into a contract with the Supplier, M/s Export Trading Company Limited at a cost of Kshs.5,509,776,750. However, the NCPB ordered 103,183.5 metric tonnes of fertilizer only, leaving a balance of 12,516.5 tonnes outstanding at a cost of Kshs.5,719,134,745. No reasons were given for the revision of the contract prices by Kshs.209,357,995 considering the order was less by 12,516.65 tonnes.

The total fertilizer ordered by the two entities in the period amounted to 149,775.25 tonnes, all at a cost of Kshs.8,112,227,555 which was shared between the State Department Kshs.2,393,092,810 and National Cereals and Produce Board Kshs.5,719,134,745, respectively. This procurement exceeded the budget amount of Kshs.5,569,300,200 by Kshs.2,542,927,355.

No reason was given for failure by the State Department to order the full amount of 168,480 tonnes of fertilizer as in the approved budgeted. No explanation was provided for the revised cost of the fertilizer.

## **17.2. The Amount of Fertilizer Delivered in the Year Under Review**

During the year under review, the State Department received 920,274 bags of various types of fertilizer, while the National Cereals and Produce Board received 1,619,178 bags. All these were handled by NCPB in Mombasa. All the bags were said to weigh 50 kilogrammes each, which translates to 126,972.60 tonnes. The delivery was therefore short by 22,802.65 metric tonnes or 456,053 bags of the order.

## **17.3. Distribution of Fertilizer to NCPB Depots**

Records provided for audit on proposed distribution of fertilizer revealed that 1,200,000 bags of DAP, 1,014,000 bags of CAN, 100,000 bags of NPK, 50,000 bags of Blend 4 and 24,000 bags of Blend 9 fertilizers were distributed to various counties for both the short rains in October 2017 and long rains in February 2018. The distribution schedule provided by the State Department, showed that 1,200,000 bags of DAP and 1,014,000 bags of CAN were delivered to NCPB and the State Department required NCPB to have the fertilizer distributed to various depots spread across the Country. Records at NCPB on the other hand shows that NCPB was required to distribute 1,400,000 bags of DAP and 1,014,000 bags of CAN of the fertilizer supplied by M/s Export Trading Company Limited. In addition, it was noted that NCPB could only account for 1,398,977 bags of DAP fertilizer as 1,013 bags had not been delivered to the NCPB. No reconciliation was provided between the data provided by the State Department and the data provided by the NCPB in respect of the same supply of fertilizer.

Further, it is not clear how the additional 200,000 bags of DAP fertilizer were introduced into the system. It is also not clear how the 100,000 bags of NPK, 50,000 bags of Blend 4 and 24,000 bags of Blend 9 fertilizers were distributed.

In addition, the CAN fertilizer delivered by M/s Export Trading Company Limited was said to be of poor quality and at one time its loading and distribution had been suspended until quality issues had to be sorted out. The fertilizer was said to be caked and attempts to make it free flowing was unsuccessful. It is not, however, clear how the quality issue was sorted out as it was eventually distributed.

Further the DAP fertilizer was observed to have inconsistent weights which ranged between 46 and 51 kilogrammes. However, this was eventually sorted out and a minimum average weight of 49.5 kilogrammes was agreed upon.

In addition, the Board had hired an independent company to carry out weights and quality survey on the fertilizer. It is not clear why the Board had failed to seek the services of the Kenya Bureau of Standards. It is also not clear why the independent company failed to raise the observed weaknesses of weight and quality on time.

It was also noted that there was delay in transporting the fertilizer to the respective depots, and this was mainly because owners of trucks would be given the authority to load but would not make their trucks available in time, sometimes waiting up to 48 hours before providing the trucks. While other trucks would be idle but since they had not been authorized to load, they remained unloaded. Delay in loading the fertilizer had the multiplier effect of delaying the delivery of the fertilizer to the respective depots.

Although the roles of handling the fertilizer at the port of entry, its distribution to the depots and the sale to farmers was vested in the National Cereals and Produce Board, the State Department failed to monitor and obtain feedbacks on the intended impact of the procured fertilizer. It is also not clear, how much of the fertilizer that was procured by both the State Department and the National Cereals and Produce Board on behalf of the State Department was sold to farmers.

#### **17.4. Unaccounted Revenue from Sale of Fertilizer**

The State Department for Agriculture did not prepare a Statement of Revenue during the year. It was indicated that the National Treasury had not appointed the Accounting Officer, State Department for Agriculture as a Receiver of Revenue. However, the National Cereals and Produce Board was to bank all revenue realized from sale of local blends of fertilizer that were procured by the State Department from AGPO firms in Kenya Commercial Bank for onward transmission to the State Department's account at the Central Bank of Kenya.

The State Department indicated that NCPB had an accumulated sales receipt of Kshs.1,137,911,500 as at 30 June 2018, while NCPB reported revenue amounting to over Kshs.1,400,000,000. It was indicated that the amount was used to offset debts owed to the NCPB as the State Department had failed to settle its obligations related to subsidy claims by NCPB. This however, is contrary to the requirements of section 76 of the Public Finance Management Act, 2012 which stipulates that, "a receiver of the national government revenue may authorize a public officer employed by the national government or any of its entities to be a collector of revenue for the national government and remit it to the receiver". The State Department explained that the National Treasury had not appointed 'a receiver of revenue' for this kind of revenue for the year, and consequently it was left to the National Cereals and Produce Board.

The State Department indicated that as at 30 June 2018, it had 236,217 bags of various types of fertilizer outstanding in the depots of NCPB. This implies that at least 2,303,235

bags of various types of fertilizer had been sold, which would mean that the NCPB had collected over Kshs.2.3 billion on sale of fertilizer. Under the circumstances, the total revenue collected could not be confirmed.

#### **17.5. Formal Agreement Between the State Department and the National Cereals and Produce Board on Distribution of Fertilizer**

The assignment contract provides that the State Department is to refund the National Cereals and Produce Board the subsidy on imported fertilizer. The National Cereals and Produce Board sold fertilizers to farmers at subsidized prices of Kshs.1,500 for a 50kg bag of all planting fertilizer (DAP, NPK 23:23:0, NPK 17:17:17) blends and all top dressing fertilizer (CAN, UREA): and Kshs. 1,300 for a 50Kg bag of Sulphate of Ammonia (SA). Although the imported fertilizer for the short rains as well as the blended fertilizers that the State Department procured from AGPO firms were delivered directly to the depots of National Cereals and Produce Board located in various parts of the country, it was noted that no agreement was signed between the State Department and National Cereals and Produce Board about the handling of the fertilizer stocks as well as the sales proceeds. No evidence was provided to show that the State Department carried out any reconciliations for sales made and quantity delivered by, or outstanding from each of the suppliers as at 30 June 2018. However, it was indicated that as at 30 June 2018, there were 236,217 bags of various types of fertilizer in various depots.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC MONEY**

#### **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 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.

### **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 Those Charged with Governance**

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

In preparing the financial statements, management is responsible for assessing the Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the management either intends to liquidate the National Cereals and Produce Board or to 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.

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 manner.

Those charged with governance are responsible for overseeing the National Cereals and Produce Board financial reporting process, reviewing the effectiveness of how the entity 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 National Cereals and Produce Board 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 matter 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 in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems

in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. However, because of the matters described under Conclusions on Lawfulness and Effectiveness in Use of Public Resources, and Internal Control, Risk Management and Governance sections of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for audit conclusions.

I am independent of National Cereals and Produce Board in accordance with ISSAI 30 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.



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

**Nairobi**

**18 July 2019**