

REPORT OF THE AUDITOR-GENERAL ON STRATEGIC GRAIN RESERVE FUND FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of Strategic Grain Reserve Fund set out on pages 10 to 28, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets and statement of cash flows 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. Gunny Bags

(i). Overstated Cost of Gunny Bags

The statement of financial performance for the year ended 30 June 2017 reflects cost of sales figure of Kshs.11,672,958,682 and other expenditure figure of Kshs.1,849,608,068 respectively, and as disclosed under Notes 6 and 7 to the financial statements, these expenditure items include amounts of Kshs.446,651,961 and Kshs.394,907,461 respectively all totalling Kshs.841,559,422, relating to purchase of gunny bags. However, an audit review of procurement records revealed that an expenditure of Kshs.401,460,400 was incurred on procurement of gunny bags during the year 2016/2017. The difference of Kshs.440,099,022 between the figures disclosed in the financial statements and amounts supported with documentary evidence has not been reconciled or explained.

(ii). Procurement of Gunny Bags

In addition, documents provided for audit indicated that two firms were awarded contracts during the year 2016/2017 to supply gunny bags, where each was to supply 2,700,000 and 525,000 bags, respectively. However, it is not clear how the two firms were identified as no documentary evidence has been provided to show the procurement method and procedures followed.

Further, no documents have been made available to confirm the agreed pricing or the process followed in arriving at the given price. In addition, no documents have been provided to confirm that proper contracts were entered into between the Fund/State Department of Agriculture and the suppliers. It is also not clear whether the bags were delivered as no delivery notes and related documents have been made available for audit scrutiny.

2. Financial Performance

The statement of financial performance reflects a deficit of Kshs.3,748,576,470 for the year ended 30 June 2017 (2015/2016 – Kshs.4,809,971,427). The continued loss-making trend has been attributed to the multiplicity of expenses including costs of acquisition of maize, acquisition of gunny bags, storage, fumigation, handling costs, transport costs, agency fees and commissions charged by National Cereals and Produce Board (NCPB). The persistent financial loss is an indication of existence of a material uncertainty that casts significant doubts about the ability of the Fund to continue as a going concern. Further, no evidence has been provided to show any efforts being taken by management to address the problem.

3. Inaccuracy of the Financial Statements

(i). Trial Balance

The balances and other figures reflected in the financial statements for the year ended 30 June 2017 have not been supported by a trial balance. The basis of the balances and figures reflected is, therefore, not clear.

(ii). Revenue

The statement of financial performance reflects an amount of Kshs.9,773,990,280 in respect of revenue from sale of maize. However, sales records maintained by National Cereals and Produce Board (NCPB) reflect sales revenue of Kshs.10,159,520,003, resulting in an unexplained and unreconciled difference of Kshs.385,529,723.

(ii). Cash and Cash Equivalents

The statement of financial position reflects a cash and cash equivalents balance of Kshs.4,729,514,568 as at 30 June 2017 which, although agrees with the bank reconciliation statement, differs with the balance of Kshs.4,633,633,398 shown in the cash book. The cash and cash equivalents balance is, therefore, overstated by an amount of Kshs.95,881,170 in the financial statements.

(iii). Cost of Sales – Purchases

The statement of financial performance cost of sales figure of Kshs.11,672,958,682 comprises, among other figures as disclosed under Note 6 to the financial statements,

purchases amounting to Kshs.8,344,961,256. However, records maintained at National Cereals and Produce Board reflect purchases amounting to Kshs.9,951,110,016, resulting to an unexplained and unreconciled difference of Kshs.1,606,148,760.

(iv). Trade and Other Payables

The statement of financial position reflects an amount of Kshs.2,060,694,268 under trade and other payables which, however, differs by Kshs.301,510,867 from the amount of Kshs.2,362,205,135 shown in the records maintained at National Cereals and Produce Board. The completeness and accuracy of the trade and other payables figure of Kshs.2,060,694,268 cannot therefore be confirmed.

(v). Handling Costs on Sales and Commission on Sales

The statement of financial performance reflects an amount of Kshs.1,849,608,068 under other expenditure which includes, as disclosed in Note 7 to the financial statements, an amount of Kshs.944,007,268 relating to handling costs on sales and commission on sales. This amount differs with the amount of Kshs.1,149,921,718 reflected in supporting documents by an amount of Kshs.205,914,450 that has not been reconciled or explained.

(vi). Transport and Handling Costs to Other Depots

Further, the figure of Kshs.1,849,608,068 reflected in the statement of financial performance under other expenditure includes, as disclosed under Note 7 to the financial statements, an amount of Kshs.192,372,613 relating to transport and handling costs to other depots, which differs from the amount of Kshs.533,527,249 reflected in supporting documents unexplained and unreconciled amount of Kshs.341,154,636.

4. Unsupported Balances

(i). Inventories

The statement of financial position reflects an amount of Kshs.3,561,708,813 under inventories, which includes, as disclosed under Note 9 to the financial statements, an amount of Kshs.500,000,000 relating to powdered milk at New Kenya Co-operative Creameries (NKCC). However, no documentary evidence has been provided to support the balance of Kshs.500,000,000 as at 30 June 2017. Consequently, the existence of such stock cannot be confirmed.

(ii). Receivables

The statement of financial position reflects an amount of Kshs.5,849,677,056 under receivables. However, no documentary evidence has also been provided to support the amount. Consequently, the completeness and accuracy of the receivables balance cannot be ascertained.

(iii). Cost of Sales

The statement of financial performance reflects an amount of Kshs.11,672,958,682 under cost of sales. However, payment vouchers and supporting for expenditure

totalling Kshs.4,494,724,000 relating to importation of maize, as shown below, have not provided for audit review.

<u>Date</u>	<u>Supplier</u>	<u>Amount (Kshs)</u>
23/06/2017	M/s Export Trading	1,072,000
23/06/2017	M/s Export Trading	1,114,000
23/06/2017	M/s Export Trading	1,400,000
01/06/2017	M/s Hydery P. Limited	1,362,138,000
23/06/2017	M/s Hydery P. Limited	396,000,000
15/06/2017	M/s Hydery P. Limited	324,000,000
28/06/2017	M/s Hydery P. Limited	1,000,000,000
19/06/2017	M/s Kitui Mills Limited	400,000,000
22/06/2017	M/s Mombasa Maize Millers	609,000,000
19/05/2017	M/s Pembe Flour Mills Ltd	<u>400,000,000</u>
		<u>4,494,724,000</u>

Consequently, the propriety of the expenditure totalling Kshs.4,494,724,000 cannot be ascertained.

5. Obsolete and Unfit Stock of Maize

As reported in 2015/2016, a review of quality assurance reports for that year maintained by National Cereals and Produce Board indicated that Celphos, the Board's preferred fumigation chemical had failed to kill weevils. Information available further indicated that although most stations (depots) had requested for a change of the chemical, the Board had not come up with an alternative. Consequently, 754,015 bags of maize valued at Kshs.1,772,055,670 were found to have been damaged beyond the 2.5% acceptable limit and were not fit for human consumption. No evidence has been produced during the audit to show whether the situation has been addressed 2016/2017.

Further, and as reported in 2015/2016, no adjustments have been made in these financial statements to account for the obsolete stock.

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 Public Sector Accounting Standards

(Accrual Basis) 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 Fund's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either intends 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.

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

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

My responsibility is to conduct an audit of the Fund'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 Strategic Grain Reserve Fund 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

15 May 2018