

REPORT OF THE AUDITOR-GENERAL ON STRATEGIC GRAIN RESERVE FUND FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of Strategic Grain Reserve Fund set out on pages 12 to 26, which comprise the statement of financial position as at 30 June 2018, 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.

Basis for Disclaimer of Opinion

1. Statement of Comparison of Budget and Actual Amounts

The Fund's management did not prepare and submit for audit the statement of comparison of budget and actual amounts for the year ended 30 June 2018. However, records available indicates that the Fund had budgeted to procure 2 million bags of local maize and procured 3.7 million bags of 90 kg at a cost of Kshs.11,282,483,469. It had no budget for maize imports.

A review of available records also indicate that the Fund had budgeted for 50 kg jute bags at a cost of Kshs.408 million, management fees to NCPB at Kshs.700 million, Board visits at Kshs.5 million and annual stock takes at Kshs.4 million. However, it is not clear how the budgeted amounts were arrived at as no basis was provided. Further, even for the budgeted items, no record was provided to indicate how the expenditure were incurred.

2. Revenue from Exchange Transactions

The statement of financial performance for the year ended 30 June 2018 reflects an amount of Kshs.20,353,837,593 under revenue from exchange transactions. This revenue relates to sale of maize by the Fund during the year. A review of available records indicate that the Fund sold 8,832,452 bags of 90 kg of maize in the year under review. It was noted that the price at which the maize was sold varied from one depot to another and from one grade to the other. No reason was provided for the varied prices, which ranged from Kshs.1,245 to Kshs.2,300. It is not clear how the buyers of the maize were identified.

The audit also revealed that no local maize was sold, and all sales in the year were related to sale of imported maize. Records available indicate that the Fund bought 15,597,871 bags of imported maize and the closing stock amounted to 287,431 bags

only as at 30 June 2018. It is not clear whether the remaining bags were sold thereafter as they could not be accounted for as at the time of the audit.

Consequently, the completeness and accuracy of the sales figure provided could not be ascertained.

3. Cost of Sales

3.1 Overstated Cost of Imported Maize

The statement of financial performance reflects an amount of Kshs.37,222,645,795 under cost of sales. This amount, as disclosed in Note 6 to the financial statements relates to the cost of stock of maize sold in the year. As disclosed in Note 6 to the financial statements, the Fund imported maize at a total cost of Kshs.34,822,028,282. This amount, however, differs with the amount of Kshs.31,288,225,350 reflected in the records maintained by the National Cereals and Produce Board (NCPB), by Kshs.3,533,802,932. No reconciliation or explanation was provided for the variance.

In addition, Note 6 reflects an amount of Kshs.3,061,708,813 as opening stock of maize in the year ended 30 June 2018. However, records available shows that only imported maize was sold and the closing stock does not comprise any of the old stock brought forward in the year. Further, payment vouchers totalling Kshs. 9,521,226,296 relating to procurement of imported maize were not provided for audit scrutiny.

Under the circumstances, the completeness and accuracy of the cost of sales figure of Kshs.37,222,645,795 could not be confirmed.

3.2 Missing Payment Vouchers for Local Suppliers of Maize

The cost of sales figure of Kshs.37,222,645,795 and as disclosed in Note 6 (i) to the financial statements includes an amount of Kshs.11,282,483,469 incurred on procurement of local maize. However, the Fund management did not provide for audit verification payment vouchers amounting to Kshs.1,660,487,233, in respect of the payments made to local farmers for supply of maize to various NCPB depots during the year under review. Although the management explained that these vouchers had been taken by the Ethics and Anti-Corruption Commission for investigations, it was not possible to confirm the propriety of the expenditure as tabulated below:

Name of Depot	Amount Kshs
Eldoret	1,264,342,807
Kisumu	51,276,040
Kitale	81,097,976
Bungoma	263,770,410
Total	1,660,487,233

Consequently, the validity, completeness and accuracy of the cost of sales of Kshs.37,222,645,795 disclosed in these financial statements could not be confirmed.

3.3 Procurement of Maize

3.3.1 Budget

During the year under review, the Fund had budgeted to purchase 2 million bags of local maize at a cost of 6 billion shillings. However, the fund procured 3.7 million bags of 90kgs local maize at a cost of Kshs.11,282,483,469, which resulted in a budget over run by Kshs.5.1 billion. In addition, the Fund procured maize from maize importers valued at Kshs.34,822,028,282 without any prior budget provision for the same.

3.3.2 Vetting of Farmers

In eleven sampled depots, the audit revealed that the forms used for vetting of farmers were similar. It was further observed that some of the forms had preprinted serial numbers while others were inserted by hand. In other cases, some forms required the signature of the name of the group, agricultural officer and the assistant chief while others required the signature of the assistant chief, ward administrator and agricultural officer. In addition, the forms had no section for evidence of size of land owned or leased by the farmers to show how much each farmer was capable of producing.

3.3.3 Procurement of Maize without Required Approval Documents

Out of the total maize procured of Kshs.11,282,483,469 from local farmers, it was observed that maize valued at Kshs.288,692,553 was purchased by the Fund before the farmers had obtained all the required approval documents. Some of the forms were not approved by the assistant chief, chief, ward administrator or agricultural officer, contrary to the guidelines issued by the NCPB Managing Director as detailed below:

Name of Depots	Amount Paid to Farmers Kshs
Kisumu	68,489,067
Mois Bridge	8,252,747
Kitale	7,327,278
Bungoma	4,679,029
Lugari	3,441,485
Name of Depots	Amount Paid to Farmers Kshs
Klpkaren Salient	841,012
Nakuru	180,837,355
Eldoret	14,824,380
Total	288,692,353

3.3.4 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 1st 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. The following farmers supplied more than 10,000 bags of 90 Kgs of maize. It was not possible to ascertain if these farmers owned land that could be able to produce more than 10,000 bags of maize.

Farmer Identity Number	Name of the Farmer	No. of Bags Delivered to NCPB	Value in Kshs.
Eldoret Depot			
F9252268	Joseph K Sang	11,051.00	18,495,838.00
F1223249	Simon Kipkosgei	26,319.00	46,093,552.00
Kisumu Depot			
F27142738	Celestine Chepchirchir	208,923.00	369,298,591.00
F4906065	Alice Wanjiku Githaiga	41,336.00	71,064,523.00
F13809852	Paul Kibichiy Biego	12,554.00	21,951,304.00
F13207544	Stephen Kiproba Maiyo	103,107.00	181,412,036.00
F7061349	John Tanu Kosgei	16,054.00	27,134,625.00
F22861976	Anthony Kipngetch Chebii	10,541.00	18,314,744.00
F1932302	Paul Kipyego Marus	15,567.00	27,323,420.00
F24922428	Caroline Chepchumba	113,967.00	190,658,982.00
F22835806	Richard Kiprotich Koech	12,961.00	21,580,065.00
F26975990	Rodney Kimutai	14,936.00	24,868,440.00
F1223249	Simon Kipkosgei Changwony	31,544.00	52,520,760.00
Mois Bridge			
F10033156	Bernard Mwangi Kimani	36,978.00	64,546,838.00
F23481131	Dancan Ndugu	21,600.00	38,136,016.00
F14462196	David Nderitu Gacau	26,488.00	45,913,827.00
F20537633	Egline Chepchirchir	15,374.00	26,295,996.00
F4542250	Elijah Cherono Chepkerui	13,530.00	23,352,112.00
F21421120	Elijah Rotich	12,676.00	22,425,040.00
F20690680	Francis Ngoro	14,509.00	25,495,795.00
F22754495	Isaac Kipruto	14,509.00	25,495,795.00
F13415938	James Karanja Kamau	11,708.00	20,423,216.00
F23805764	Joel Nganga Mathenge	21,208.00	37,106,395.00
F13146766	Joseph Komen Biwot	12,661.00	22,487,202.00
Kitale			
F4724222	Benson Giteri Muchumba	11,459.00	20,340,664.00
Nakuru			
F11843743	Christine Towet	13,224.00	22,018,359.00
F12915985	Daniel Ngetich	23,746.00	39,534,123.00

Farmer Identity Number	Name of the Farmer	No. of Bags Delivered to NCPB	Value in Kshs.
F21475430	Enock Momany	11,959.00	20,637,995.00
F22479844	Evans Amdang	13,645.00	22,719,124.00
F1340120	Grace Maguta	13,378.00	22,274,203.00
F13069795	Isaac Towet	15,795.00	27,749,518.00
F0462559	Jane Gitau	11,969.00	20,391,438.00
F3552359	Lawrence Mungai	13,950.00	23,941,884.00
F0729081	Veronica Gichui	11,437.00	20,019,717.00

3.3.5 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 NCPB. There was no evidence that the Accounting Officer responsible for the Fund and NCPB 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 NCPB was as per the specification of the Ministry.

4. Other Expenditure

The statement of financial performance reflects an amount of Kshs.6,780,698,646 under other expenditure and as disclosed in Note 7 to the financial statements, the expenditure relates to transport and handling costs, storage and fumigation, sales commissions, drying charges, purchase commissions, gunny bags and import costs. Included in the other expenditure figure of Kshs.6,780,698,646 is an amount of Kshs.3,904,916,013 incurred on storage and fumigation costs, which is an increase of 25 times over the previous year amount of Kshs.153,531,615. No explanation was provided for such a huge increase in the expenditure over the previous year.

In addition, included in the expenditure is an amount of Kshs.436,244,000 paid to both staff of the parent Ministry and suppliers that was not supported with documentary evidence. Further, the cash book reflects payments for travelling and accommodation, board expense, repair of motor vehicles and payment to the taskforce members all totalling Kshs.41,831,286, which have not been included in these financial statements. no explanation was provided for the exclusion of these payments in the financial statements.

Consequently, the completeness and accuracy of the other expenditure figure of Kshs.6,780,698,646 could not be ascertained.

5. Cash and Cash Equivalents

The statement of financial position as at 30 June 2018 and as disclosed in Note 8 to the financial statements reflects a balance of Kshs. 3,901,065 under cash and cash equivalents. However, a review of the expenditure records revealed payments amounting to Kshs.1,346,079,257 that had not been posted in the cash book. In addition, there were no bank reconciliations during the year under review. Further, as was reported in the previous year, the opening cash balances had been overstated with an amount of Kshs.95,881,170.

Consequently, the completeness and accuracy of cash and cash equivalents balance as at 30 June 2018 could not be confirmed.

6. Inventories

The statement of financial position reflects a balance of Kshs.12,643,574,769 under inventories and as disclosed under Note 9 to the financial statements the inventories comprise of maize stock as well as powdered milk. The following unsatisfactory matters were observed:

6.1 Condemned Maize

Disclosed in Note 6 to the financial statements is an amount of Kshs.11,282,483,469 under closing stock of local maize. However, this includes maize valued at Kshs.342,482,895 stored in various NCPB depots which was found to contain high levels of aflatoxin by the Ministry of Health and are 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
Total	176,265	342,482,895

In addition, the opening stock of Kshs.3,061,708,813 has not been accounted for in these financial statements. It is not clear how the amount was written off from the records of the Fund.

6.2 Un Accounted for Bags of Maize

The statement of financial position's inventories figure of Kshs.12,643,574,769 includes, as disclosed in Note 6 to the financial statements, 3,913,098 bags of maize comprising of 287,431 bags and 3,625,667 bags of imported maize and local maize, respectively. However, this differs with the store records maintained by NCPB, 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. In addition, Note 6 to the financial statements shows 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 NCPB shows that the Board 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.

Under the circumstances, the accuracy, completeness and existence of the stock of maize balance of Kshs.11,943,574,769 as at 30 June 2018 could not be confirmed.

6.3 Maize in Silos

According to the 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.

The fund had a budget provision for 2017/18 financial year of Kshs.408,000,000 for purchase of 2,718,000 jute bags. It was not clear why the maize was not bagged and transferred to the conventional stores as shown below:

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

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.

6.4 Powdered Milk

Disclosed in Note 9 to the financial statements is powdered milk stock from Kenya Creameries Cooperative (KCC) amounting to Kshs.700,000,000, that has been outstanding in the records for over two years. No documentary evidence was however produced to confirm its existence as at year end or its suitability for human consumption. Under the circumstances, the existence of the powered milk stock could not be confirmed.

6.5 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 NCPB 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, NCPB 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.

7. Receivables

The statement of financial position reflects receivables balance of Kshs.18,160,523,581 as at 30 June 2018. As disclosed under Note 10 to the financial statements, the amount includes Kshs.6,865,220,613 brought forward from the previous year and due from the State Department for Special Programmes. It was however indicated in the previous year that an amount of Kshs.5,849,677,056 was not supported by documentary evidence. In addition, the debtors' ledger for State Department of Special Programmes maintained by the National Cereals and Produce Board reflected a balance of Kshs.90,427,573, resulting in a variance of Kshs.6,774,793,040 that was not reconciled or explained.

In addition, Note 10 to the financial statements discloses receivables from exchange transaction in respect of subsidy component on imported maize amounting to Kshs.11,295,302,968. However, it is not clear how the amount was arrived at as the accounting records presented were not supported with documentary evidence to show that the receivables existed as of 30 June 2018.

Under the circumstances, the validity and accuracy of the receivables balance of Kshs.18,160,523,581 could not be confirmed.

8. Trade and Other Payables from Exchange Transactions

The statement of financial position reflects trade and other payables from exchange transactions balance of Kshs.13,181,494,364. The amounts include VAT payable amounting to Kshs.400,295,571, other creditors of Kshs.1,138,494,057 and prior year adjustments of Kshs.1,228,212,674 that were not supported with documentary evidence. It was observed that some of the creditors balance were contra to receivables.

In the absence of supporting documentations, the completeness and accuracy of trade and other payables from exchange transactions balance could not be confirmed.

9. Reserves

The statement of financial position also reflects a balance of Kshs.64,874,935,811 under reserves. This is an increase from last year's balance of Kshs.36,593,162,751 by Kshs.28,281,773,060. The increase was attributed to government exchequer releases of Kshs.9,994,000,000 and proceeds from sale of maize Kshs.18,287,773,060. However, the amount of Kshs.18,287,773,060 in respect of proceeds from sale of maize was double counted as it is part of the sales figure of Kshs.20,353,837,593. In addition, the exchequer release of Kshs.9,994,000,000 was to procure maize and therefore should have been accounted for under revenue from non-exchange transactions.

Further, the reserves balance brought forward from previous years were not supported either with documentary evidence or any corresponding assets. Consequently, the reserves balance reported as at 30 June 2018 could not be confirmed.

10. Differences Between the Trial Balance and Supporting Schedules Balances

The trial balance figures differed with the figures reflected in schedules presented for audit as detailed below:

Component	Amount in Trial Balance – Kshs	Amount in Schedule Kshs	Difference Kshs
Drying charges	881,220,177	109,978,618.11	771,241,559
Purchases commission	109,978,619	492,671,106.53	(382,692,487)
accumulated loss as at 1st July	23,598,923,911	47,248,430,759	(23,649,506,848)

Under the circumstance, the accuracy and completeness of the financial statements presented for audit could not be ascertained.

11. Presentation of Financial Statements

11.1 Title of the Fund on the Financial Statements

A review of the financial statements presented for audit by the Fund revealed that although the Legal Notice No.15 of February 2015 created Strategic Food Reserve Trust Fund, the financial statements title reads Strategic Grain Reserve Fund on the cover page.

11.2 Statement of Trustees Responsibilities

Paragraph 3 of the statement of trustee responsibilities, states that the financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) while the cover page shows that the financial statements have been prepared in accordance with IPSAS accrual.

11.3 Statement of Comparison of Budget and Actual Amounts

According to the guidelines issued by the Public Sector Accounting Standards Board on the revised IPSAS Accrual template dated 30 June 2017, the statement of comparison of budget and actuals should form part of the financial statements submitted for audit. However, the financial statements submitted for audit did not include the statement of comparison of budget and actual amounts.

11.4 Principal Secretary Statement

The statement by the Principal Secretary highlighted various key activities of the Fund during the year under review which included the purchase of 3.8 million bags of local maize and one million bags of imported maize. This differs with Note 6 to the financial statements that reflect that 3.6 million bags of local maize were purchased at a cost of 11.2 billion while 9.7 million bags of maize were imported at a total cost of 34.8 billion. Other available records indicate an amount of 15.6 million bags were imported and 3.7 million bags were bought from local farmers. Consequently, the statement is misleading.

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 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

Report of the Auditor-General on the Financial Statements of Strategic Grain Reserve Fund for the year ended 30 June 2018

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 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 ability of Strategic Grain Reserve Fund to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the Fund 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 way.

Those charged with governance are responsible for overseeing the 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 Strategic Grain Reserve Fund 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 under Conclusions on Lawfulness and Effectiveness in Use of Public Resources, and Internal Controls, Risk Management and Governance sections of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

I am independent of 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

14 June 2019