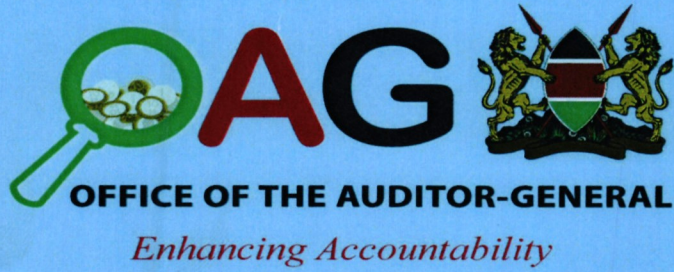


REPUBLIC OF KENYA



PARLIAMENT  
OF KENYA  
LIBRARY

**REPORT**

THE NATIONAL ASSEMBLY	
DATE: 01 SEP 2021	DAY: WED
TABLED BY: LOM P.	CLERK-AT THE-TABLE: S. Kalana

**THE AUDITOR-GENERAL**

**ON**

**AGRICULTURE AND FOOD AUTHORITY**

**FOR THE YEAR ENDED  
30 JUNE, 2019**



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**AGRICULTURE AND FOOD AUTHORITY**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2019**

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**Prepared in accordance with the Accrual Basis of Accounting Method under the International  
Public Sector Accounting Standards (IPSAS)**

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## **I. KEY AUTHORITY INFORMATION AND MANAGEMENT**

### **(a) Background information**

The Agriculture and Food Authority (AFA) is a state corporation established through an Act of Parliament specifically, under section 3 of the Agriculture Fisheries and Food Authority Act of 2013 and amended by Statute law (Miscellaneous Amendment) Act 2016 dated 26/4/2016 which changed the name to Agriculture and Food Authority (AFA)

The Act consolidates the laws on the regulation and promotion of agriculture and makes provision for the respective roles of the National and County Governments in Agriculture and related matters.

### **Vision, Mission and Core Values**

#### **Vision:**

“To be a World Class Regulator in the Agriculture Sector”

#### **Mission:**

“To sustainably develop and promote scheduled crops value chains through effective regulation for economic growth”

#### **Motto:**

“Our Crops, Our Wealth”

#### **Core Values:**

“Professionalism; Integrity; Customer focus; Teamwork; and Innovativeness”

### **(b) Principal Activities**

The Agriculture and Food Authority is mandated to carry out the following functions:

- Administer the Crops Act, in accordance with the provisions of the AFA and Crops Acts;
- Promote best practices in, and regulate, the production, processing, marketing, grading, storage, collection, transportation and warehousing of agricultural and aquatic products excluding livestock products as may be provided for under the Crops Act;
- Collect and collate data, maintain a database on agricultural products excluding livestock products, documents and monitor agriculture through registration of players as provided for in the Crops Act and the Fisheries Act;
- Determining the research priorities in agriculture and to advise generally on research thereof;
- Advise the national government and the county governments on agricultural levies for purposes of planning, enhancing harmony and equity in the sector;
- Carry out such other functions as may be assigned to it by the AFA Act, the Crops Act, and any written law while respecting the roles of the two levels of Government

**(c) Key Management**

The Agriculture and Food Authority's day-to-day management is under the following key organs:

**Board of Directors**  
**Director General**  
**Management**

**(d) Fiduciary Management**

The key management personnel who held office during the period starting from 1<sup>st</sup> July 2018 to 30<sup>th</sup> June 2019 and who had direct fiduciary responsibility were:

<b>MANAGEMENT</b>		
<b>No.</b>	<b>DESIGNATION</b>	<b>NAME</b>
1	Interim Director General	Anthony Mureithi
2	Interim Head - Tea Directorate	Anthony Mureithi
3	Interim Head - Horticulture Directorate	Bernard Ondanje
4	Interim Head - Nuts and Oils Directorate	Richard Ndegwa
5	Interim Head - Fibre Directorate	Naomi Kamau
6	Interim Head - Coffee Directorate	Isabella Nkonge
7	Interim Head - Food Directorate	Leonard Kubok
8	Interim Head– Miraa, Pyrethrum & other Industrial Crops Directorate	Clement Muyesu
9	Interim Head - Sugar Directorate	Solomon Odera
10	Interim Head -Finance	Joseph W. Muigai
11	Interim Head -Planning, Research & Strategy	Patricia Njeru
12	Interim Head -Internal Audit	Isaac Metto
13	Interim Head –Legal	Andrew O. Osodo
14	Interim Head -Human Resource	Nelly Mulema
15	Interim Manager-Corporate and Communications	Christine Chesaro
16	Interim Manager -Supply chain	Daniel Mbovu
17	Interim Manager –ICT	Amos Mulievi

**(e) Fiduciary Oversight Arrangements**

**Audit and finance committee activities**

The primary purpose of an audit committee is to provide oversight of the financial reporting process, the audit process, the system of internal controls and compliance with laws and regulations while role of the finance committee is primarily to provide financial oversight for the organization. This include budgeting and financial planning, financial reporting, and the creation and monitoring of internal controls and accountability policies.

**Agriculture and Food Authority**  
**Financial Statements for the Year Ended 30th June 2019**

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**Parliamentary committee activities**

The Public Accounts Committee is responsible for the examination of the accounts showing the appropriations of the sum voted by the House to meet the public expenditure and of such other accounts laid before the House as the Committee may think fit.

**Development partner oversight activities**

It looks at the broad objectives and service delivery approaches across all grants and seeks to identify and resolve issues that might hinder successful grant implementation. Oversight helps ensure transparency and accountability in grant implementation and that Global Funds resources are used appropriately and effectively to achieve intended intermediate and long term results in accordance with the national strategic plans

**Public Procurement Oversight Authority (PPOA),**

Facilitate access to procurement opportunities through enabling regulation that fosters value for money for national socio-economic development.

**(f) Agriculture and Food Authority Headquarters**

P.O. Box 37962-00200  
Tea House, Naivasha Road  
Nairobi, Kenya.

**(g) Agriculture and Food Authority Contacts**

P.O. Box 37962-00200  
Telephone: (254) 722200556/  
E-mail: [info@agricultureauthority.go.ke](mailto:info@agricultureauthority.go.ke)  
Website: [www.agricultureauthority.go.ke](http://www.agricultureauthority.go.ke)

**(h) Agriculture and Food Authority Bankers**

1. Kenya Commercial Bank
2. National Bank of Kenya
3. Citibank N.A
4. CFC Stanbic Kenya
5. Co-operative Bank of Kenya
6. Barclays Bank
7. Standard chartered Bank
8. NIC Bank

**(i) Independent Auditors**

Auditor General  
Office of the Auditor General  
Anniversary Towers, University Way  
P.O. Box 30084  
GOP 00100  
Nairobi, Kenya

**Agriculture and Food Authority**  
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**(j) Principal Legal Adviser**

The Attorney General  
State Law Office  
Harambee Avenue  
P.O. Box 40112  
City Square 00200  
Nairobi, Kenya




**II. THE BOARD OF DIRECTORS OF THE AUTHORITY**



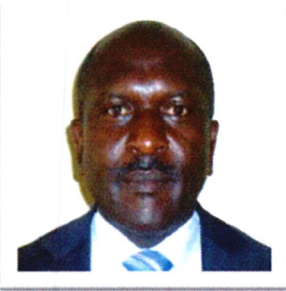
The Authority did not have a Board of Directors in the financial year 2018/2019

**III. MANAGEMENT TEAM**




During the financial year ended 30<sup>th</sup> June 2019, the following was the management team who oversaw operations of the Authority:-



STAFF DETAILS	RESPONSIBILITY AREA
<p><b>Anthony G. Muriithi</b></p>  <ul style="list-style-type: none"> <li>• Masters in Agricultural Economics,</li> <li>• Bachelor of Science in Agriculture and</li> <li>• Diploma in Agriculture</li> </ul>	<p><b>Interim Director General and Head of Tea Directorate</b></p> <p>Responsible for the day to day management of the Authority, the direction of the affairs and transactions of the Authority, the exercise, discharge and performance of its objectives, functions and duties, and the general administration of the Authority. The Director general is also the Secretary to the Board of the Authority</p>
<p><b>Solomon O. Odera</b></p>  <ul style="list-style-type: none"> <li>• Bachelor of Science in Business Administration (Accounting and Financial Management)</li> <li>• Associate, Institute of Bankers (AIB)</li> </ul>	<p><b>Interim Head -Sugar Directorate</b></p> <p>Responsible for administration of the Crops Act in relation to <b>Sugar</b> and to promote best practices in, and regulate the production, processing, marketing, grading, storage, collection, transportation and warehousing of the same</p>

<p><b>Richard Ndegwa</b></p>  <ul style="list-style-type: none"> <li>• MSc. Agribusiness Management</li> <li>• BSc. Agriculture</li> </ul>	<p><b>Interim Head - Nuts and Oils Directorate</b></p> <p>Responsible for administration of the Crops Act in relation to <b>Nuts and Oil Crops</b> and to promote best practices in, and regulate the production, processing, marketing, grading, storage, collection, transportation and warehousing of the same</p>
<p><b>Isabella Nkonge</b></p>  <ul style="list-style-type: none"> <li>• Master of Science in Agronomy (2000 -2002 (UoN);</li> <li>• Bachelor of science in Agriculture and Home Economic, (1990) Egerton University;</li> <li>• Diploma in Agriculture and Home Economics, (1985) Egerton University</li> </ul>	<p><b>Interim Head - Coffee Directorate</b></p> <p>Responsible for administration of the Crops Act in relation to <b>Coffee</b> and to promote best practices in, and regulate the production, processing, marketing, grading, storage, collection, transportation and warehousing of the same</p>
<p><b>Bernard Ondanje</b></p>  <ul style="list-style-type: none"> <li>• Bachelor of Science in Agriculture</li> </ul>	<p><b>Interim Head - Horticulture Directorate</b></p> <p>Responsible for administration of the Crops Act in relation to <b>Horticultural Crops</b> and to promote best practices in, and regulate the production, processing, marketing, grading, storage, collection, transportation and warehousing of the same</p>

<p><b>Naomi Kamau</b></p>  <ul style="list-style-type: none"> <li>• Master of Environmental Science, (Agroforestry and Rural Development),</li> <li>• Bachelor of science (In Agriculture)</li> </ul>	<p><b>Interim Head - Fibre Directorate</b></p> <p>Responsible for administration of the Crops Act in relation to <b>Fibre Crops</b> and to promote best practices in, and regulate the production, processing, marketing, grading, storage, collection, transportation and warehousing of the same</p>
<p><b>Leonard Kubok</b></p>  <ul style="list-style-type: none"> <li>• Master of Science in Agricultural Extension,</li> <li>• Bachelor of Science in Agriculture</li> <li>• Certificate in Rural Development</li> <li>• Certificate Corporate Governance</li> </ul>	<p><b>Interim Head - Food Directorate</b></p> <p>Responsible for administration of the Crops Act in relation to <b>Food Crops</b> and to promote best practices in, and regulate the production, processing, marketing, grading, storage, collection, transportation and warehousing of the same</p>
<p><b>Clement Muyesu</b></p>  <ul style="list-style-type: none"> <li>• Masters of Science in Disaster Management &amp; Sustainable development</li> <li>• Bachelors of Science in Agriculture</li> </ul>	<p><b>Interim Head – Miraa, Pyrethrum and other Industrial Crops Directorate</b></p> <p>Responsible for administration of the Crops Act in relation to <b>Miraa, Pyrethrum and Other Industrial Crops</b> and to promote best practices in, and regulate the production, processing, marketing, grading, storage, collection, transportation and warehousing of the same</p>

<p><b>Andrew M. O. Osodo</b></p>  <ul style="list-style-type: none"> <li>• Master of Business Administration (MU),</li> <li>• Bachelor of Laws (UoN),</li> <li>• Post Graduate Diploma in Law (KSL)</li> <li>• Member of ICPSK and advocate of the High Court</li> </ul>	<p><b>Interim Head -Legal Services</b></p> <p>Responsible for Board's Secretariat and Legal Services</p>
<p><b>Joseph W. Muigai</b></p>  <ul style="list-style-type: none"> <li>• Master of Business Administration, Finance (UoN);</li> <li>• Bachelor of Commerce, Accounting (UoN)</li> <li>• Certified Public Accountant of Kenya, CPA(K)</li> <li>• Membership: Institute of Certified Public Accountants of Kenya, ICPAK; M/No. 5605</li> </ul>	<p><b>Interim Head – Finance</b></p> <p>Responsible for Financial Accounting, Financial Management and Financial Reporting</p>
<p><b>Patricia W. Njeru</b></p>  <ul style="list-style-type: none"> <li>• Master of Agricultural Economics (UNE, Australia)</li> <li>• Graduate Diploma in Resource Economics (UNE, Australia)</li> <li>• Bachelor of Science, Agricultural Economics (Egerton University)</li> <li>• Project Monitoring &amp; Evaluation</li> <li>• Member, Institute of Economic Affairs</li> </ul>	<p><b>Interim Head – Corporate Planning, Strategy and Enterprise Risk Management</b></p> <p>Responsible for Implementation, Monitoring and Evaluation of the Authority's Performance under the Strategic Plan and Performance Contracts</p>

<p><b>Nelly Mulema</b></p>  <ul style="list-style-type: none"> <li>• Masters in Business Administration,</li> <li>• Bachelor of Arts,</li> <li>• Member of Institute of Human Resource Management and Kenya Institute of Management</li> </ul>	<p><b>Interim Head -Human Resource &amp; Administration</b></p> <p>Responsible for the Human resource recruitment, development and among others and general administration</p>
<p><b>Isaac C. Metto</b></p>  <ul style="list-style-type: none"> <li>• Executive Master of Business Administration,</li> <li>• Bachelor of Commerce (Accounting).</li> <li>• Member of Institute of Internal Auditors.</li> </ul>	<p><b>Interim Head -Internal Audit</b></p> <p>Responsible for assuring Management and the Board that internal control systems are in place and working and that the risk management framework is working in light of management awareness of risks and mitigation measures thereof.</p>
<p><b>Christine Chesaro Yebei</b></p>  <ul style="list-style-type: none"> <li>• Masters in International Relations,</li> <li>• Bachelor of Arts in French &amp; History,</li> <li>• Post Graduate Diploma in Public Relations Management</li> </ul>	<p><b>Interim Manager-Corporate Communications</b></p> <p>Responsible for managing Corporate Communications at Agriculture and Food Authority (AFA)</p>

<p><b>Daniel K. Mbovu</b></p>  <ul style="list-style-type: none"> <li>• Master of Science in Procurement and Logistics (JKUAT);</li> <li>• Diploma in Purchasing and Supplies Management (KIM)</li> <li>• Bachelor of Commerce, Marketing (KU)</li> <li>• Licensed Practitioner-Kenya Institute of Supplies Management (KISM)</li> <li>• Member, Kenya Institute of Supplies Management(KISM)</li> </ul>	<p><b>Interim Manager –Supply Chain</b></p> <p>Responsible for Supply Chain and Procurement and Disposal of unserviceable assets of the Authority</p>
<p><b>Amos M. Mulievi</b></p>  <ul style="list-style-type: none"> <li>• Masters in Information Systems,</li> <li>• Bachelor of Education (Mathematics),</li> <li>• Post Graduate Diploma in Computer Science</li> </ul>	<p><b>Interim Manager –ICT</b></p> <p>Responsible for Business Processes Automation &amp; Implementation of the Authority’s ICT Strategies and Policies</p>

#### **IV. CHAIRMAN'S STATEMENT**

The Authority did not have a Board of Directors in place in the period under review

#### **V. REPORT OF THE DIRECTOR GENERAL**

Agriculture and Food Authority (AFA) was established through an Act of Parliament, the Agriculture and Food Authority Act, 2013 (revised in 2016). The mandate of the Authority is to regulate, develop and promote scheduled crops for increased economic growth in Kenya. This is achieved through capacity building, development and enforcement of regulations and market research and product development. The Authority has developed a strategic plan to guide on the delivery of its mandate. Strategic goals of the Authority include boosting agricultural productivity and growth, upgrading Kenya's agricultural value chains for job creation and income generation enhancing market access and integration into global value chains and establishing standards and enforcement of regulations.

Following the coming into effect of the AFA Act and Crops Act in 2013 and 2014 respectively, the Ministry of Agriculture, Livestock and Fisheries and the Authority in consultation with County Governments and relevant stakeholders have been developing crop-specific Regulations. During the year under review, the Irish Potato and the Coffee Industry Regulations were gazetted. The Horticulture Crops, Tea Industry and Food Crops Regulations were forwarded to the office of the Attorney General after consultations with stakeholders and the National Assembly. Consultations with the stakeholders, the National Assembly and The Senate were held for Nuts and Oil Crops, Fibre Crops, Pyrethrum and Sugar General Regulations. The same will be submitted to the Attorney General for gazettelement after input from the various stakeholders.

As part of its promotional mandate, the Authority conducted several market promotion activities for export crops such as tea, coffee and horticulture in external markets. These included participation in expos, conferences and trade fairs as well as trade missions. The Authority also conducted several capacity building activities in counties aimed at improving productivity and upgrading of scheduled crops value chains.

Agriculture remained the highest contributor to Gross Domestic Product (GDP) at 31.5%, out of which about 24.9% is derived from growing of crops. During the year under review, the sector recorded improved performance compared to 2017. This was attributed to improved rainfall performance in 2018 compared to 2017. Spread of pests such as the fall army worms that led to low production of some crops such as maize and other cereals in 2017 were also brought under control. Tea production increased from about 440 thousand metric tonnes in 2017 to 493 thousand metric tonnes in 2018 with exports values at Ksh. 140.9 billion being achieved. Clean Coffee (CC) production for 2017/2018 was 41,375 MT compared to 38,620 MT in 2016/17. The Coffee Auction prices in 2017/18 declined to 203.53 US \$ per 50 kg bag from 233.30 US \$ per 50 kg bag in 2016/17 signifying a 12% overall decline in value. Production of maize increased from 35.4 million bags to 44.5 million bags in 2018 value at about Ksh. 100 billion. Exported volumes for horticulture remained stable at about 274 million metric tonnes valued at Ksh. 248.5 billion.

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**Financial Statements for the Year Ended 30th June 2019**

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Some of the challenges faced by the Authority that affected its performance during the year under review included lack of a substantive Board, lack of crops regulations, financial constraints and inadequate technical staff.



.....  
**ANTHONY MUREITHI**  
**INTERIM DIRECTOR GENERAL**

## **VI. CORPORATE GOVERNANCE STATEMENT**

The Board of the Agriculture and Food Authority known as the Interim Management Committee was appointed by the Cabinet Secretary for Agriculture, Livestock and Fisheries on 7<sup>th</sup> November 2016 for a period of one year. The AFA Board brings together diverse backgrounds and expertise necessary to provide leadership to the Authority. The Board and management of the Authority continue to comply with Corporate Governance guidelines and the Mwongozo Code of Governance for State Corporations. The Board recognizes the fundamental role of corporate governance in enhancing the culture and performance of the Authority and further, that high standards of corporate governance are a key contributor to the long term success of the Authority.

### **The Board's Charter**

In line with good corporate governance and the provisions of the Mwongozo Code, the Authority prepared a Board Charter which was adopted by the Board of the Authority. The Board Charter defines the Board's Roles and responsibilities as well as functions and structures in a way that supports the members in carrying out their strategic oversight function. The Charter helps the Board in directing the organization to maximize the long term value of services provided for all stakeholders. It also assists members to understand their individual and collective roles with the purpose of helping the organization fulfil its mandate.

The Charter is complementary to the provisions as contained in the Agriculture and Food Authority Act and other applicable Kenyan laws and regulations. The charter is reviewed annually.

### **Process of Appointment of Chairperson and Board Members**

The process of appointment of the Chairperson and the Board members is provided for under the Agriculture and Food Authority Act. The Chairperson shall be appointed by the President while the other board members shall be appointed by the Cabinet Secretary. The Board of the Authority shall consist of eight farmer representatives. In appointing the eight farmer representatives the Cabinet Secretary is required to consult with the Council of County Governors. Every appointment shall be by name and by notice in the Kenya Gazette. A member of the Board may at any time resign from office by notice in writing to the Cabinet Secretary. A member may also be removed from office if the member;

- (a) Is absent, without the permission of the Chairperson, from three consecutive meetings; or
- (b) Is convicted of an offence and sentenced to imprisonment for a term exceeding six months or to a fine exceeding ten thousand shillings; or
- (c) Is incapacitated by prolonged physical or mental illness or is deemed otherwise unfit to discharge his or her duties as a member of the Board;
- (d) Is adjudged bankrupt or enters into a composition scheme or arrangement with his or her creditors;
- (e) Is convicted of an offence involving dishonesty or fraud;
- (f) Otherwise fails to comply with the requirements of Chapter Six of the Constitution

The removal of a Board member shall be through formal revocation.

### **Succession/Term Limits**

Board members, shall hold office for a period not exceeding five (5) years, and are eligible for reappointment for one more term not exceeding five (5) years. The renewal of a Board Members tenure for a second term is subject to an acceptable evaluation as determined during Board evaluations.

### **The Roles and Functions of the Board**

The basic responsibilities of the Board members was to exercise their best judgment and to act in a manner that they reasonably believe to be in the best interest of the Authority and its stakeholders.

The Roles and Functions of the Board included the following;

- (a) Exercised their role collectively, not individually
- (b) The Board oversaw the implementation of the Authority's mission, vision, purpose and core values through various programs;
- (c) Setting and overseeing the overall strategy and approving significant policies of the Authority;
- (d) Reviewed, evaluated and approved, on a regular basis, long-term plans for Authority.
- (e) Reviewed, evaluated and approved the Authority's budget and financial forecasts;
- (f) Reviewed, evaluated and approved major resource allocation and capital investments;
- (g) Ensured that the procurement processes were cost-effective and delivered value for money;
- (h) Reviewed and approved the operating and financial results of Authority;
- (i) Ensured effective, accurate, timely and transparent disclosure of pertinent information on the Authority's operations and performance.
- (j) Ensured that effective processes and systems of risk management and internal controls were in place;
- (k) Approved the appointment of senior management;
- (l) Reviewed, evaluated and approved the overall Authority's structure, the assignment of senior management responsibilities and plans for senior management development and succession;
- (m) Reviewed, evaluated and approved the remuneration structure of the Authority;
- (n) Adopted, implemented and monitored compliance with the Authority's Code of Conduct and Ethics;
- (o) Reviewed on a quarterly basis the attainment of targets and objectives set out in the agreed performance measurements framework with the Government of Kenya;
- (p) Reviewed periodically the Authority's strategic objectives and policies relating to sustainability and social responsibility/investment;
- (q) Protected the rights of shareholders and optimized shareholder value;
- (r) Enhanced the Authority's public image and ensured engagement with stakeholders through effective communication;
- (s) Ensured availability of adequate resources for the achievement of the Authority's objectives;
- (t) Monitored compliance with the Constitution, all applicable laws, regulations and standards; and
- (u) Reviewed monitored and ensured that the Authority is effectively and consistently delivering on its mandate.

To effectively discharge its mandate, the Board established the Following four (4) committees with specific terms of reference:-

- 1. Audit, Risk and Governance Committee;**
- 2. Human Resource Committee**
- 3. Finance and Strategy Committee.**
- 4. Technical Committee**

The members of the Audit Committee are all Non-Executive members of the Board. The committee members have the requisite skills and expertise and executed their responsibilities with the highest degree of professionalism.

### **Conflict of Interest**

The Mwongozo code of Governance for State Corporations, the Leadership and Integrity Act, Public Officer Ethics Act and other relevant laws have set standards on the management of conflict of interest. The Authority is in compliance with the requirements set out in the code and the relevant laws. The Directors are required to disclose their areas of conflict. Directors are required to refrain from contributing to or voting on matters in which they have such conflict or influence a decision with respect to such a matter. The Authority also maintains a register to record conflict of interest

### **Board Remuneration**

The Board of the authority recommended the remuneration and sitting allowances paid to the Chairman and Board of the Authority in line with the currently prevailing government guidelines on payment of remuneration and allowances for Board members. The Chairman and Board were therefore paid Sitting allowances and other allowances in line with the guidelines.

### **Ethics and Conduct and Governance Audit**

The Authority has adopted high standards and applies strict rules of conduct, based on the best corporate practices. As part of this commitment, the Board continued to adhere to good corporate governance by embracing the following principles:-

1. Observing high standards of ethical and moral behaviour;
2. Acting in the best interests of the organization;
3. Remunerating and promoting staff fairly and responsibly;
4. Recognizing the legitimate interests of all stakeholders; and
5. Ensuring that the Authority acts as a good corporate citizen.

In general, Board members upheld their fiduciary responsibilities and duty of care act to act in the best interest of the organization. The members promoted the creation of a culture built on principles of integrity, accountability and transparency. The Chairman and Board members also signed the Code of Conduct and Ethics for State Corporations.

The Board only having been appointed in November 2016 the governance audit will be carried out in the next financial year.

## **VII. MANAGEMENT DISCUSSION AND ANALYSIS**

During the financial year 2018-2019, the Agriculture and Food Authority - AFA continued to undertake programmes to promote production and productivity of various scheduled crops in line with its mandate, as provided for under the AFA and Crops Acts. In the previous financial year (2017-2018), in addition to routine regulatory services and market development, the Authority focused on capacity building initiatives for county agriculture staff on Good Agricultural Practices (GAPs) for various scheduled crops. In the Horticulture sub-sector, emphasis was placed on capacity building on management of harmful organism in horticultural crops (Fruit fly, False Codling Moth); identification of horticultural research priority areas on harmful organism to the crops; promotion of new technologies on the use of beneficial organisms for passion fruit in different regions; promotion of high value horticultural crops; and sensitization on proper avocado harvesting for export avocado varieties. The Authority also engaged the County Government and other stakeholders in the upgrading of value chains for Cashew Nut, Rhodes Grass & Sun Flower.

The other key activities undertaken during the Financial Year 2018-2019 were in accordance with the Authority's mandate on Regulation and Compliance, Technical and Advisory as well as Market Research and Product Development. Many of our key scheduled crops are exported to diverse markets. The Market Research and Product Development activities therefore, continued to dominate the budget allocated for the Authority's core mandate. These activities included generic promotions; market surveys and other research activities; subscriptions to associations; international conferences and various promotional activities for value addition. During the financial year, AFA implemented the Market Entry Strategy for Tea into the Russian market by opening a Communications Hub in Russia, generating and disseminating content on Kenya Tea through Business-to-Business and Business-to-Consumer media activities and conducting a business and consumer exhibition in Russia. Market linkage activities were also undertaken in the U.A.E, China, Germany, North America, Netherlands, Dubai, Poland, Egypt, Japan, and Nairobi. The initiatives are expected to enhance agribusiness and market access of agricultural products to the export markets, thereby generating more foreign exchange to the country and earnings for growers.

Technical and Advisory Services undertaken during the year focused on realization of the Government's Big 4 Agenda on Food and Nutrition Security. AFA, in collaboration with the County Government and other stakeholders procured and distributed to farmers, good quality seedlings for Coffee, Coconut and Cashew Nut. This was supported with capacity building and technical support for county agriculture officers on GAPs for various scheduled crops. The Authority also undertook the second Africa Tea Science Symposium and Exhibition which brought together over two hundred (200) participants from the African Region, to share research findings on new Tea varieties and Specialty Tea Manufacture.

On Regulation and Compliance, the Crops (Irish Potato) Regulations 2019 and the Coffee (General) Regulations 2019 were gazetted. The Authority also developed Regulations for Aflatoxin prevention and control, in order to reduce post-harvest losses and improve food safety for citizens. Also, towards enhancement of food safety, AFA has embarked on a journey towards accreditation as a food

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**Financial Statements for the Year Ended 30th June 2019**

certification body. During the review period, AFA undertook development of Documents and Standard Operating Procedures for ISO/IEC 17065 and trained internal auditors. In the coming year, internal and external audits will be undertaken and application for accreditation made. Regulations and Compliance activities undertaken during the financial year included registration and licensing; inspections and surveillance; development and review of Standards and codes of practice (Cotton, Cashew Nut, Miraa, Pyrethrum and sisal); development of self-regulation guidelines for Fibre and Food Crops; product quality analysis; stakeholders' consultations and sensitizations; international conferences; consultancies; industry data collection and forecasting; maintenance of statistical e-portal. Regulation and Compliance activities were the least funded of the Authority's mandate with funding declining compared to the previous year, owing to gradual ceding of the regulatory mandate to the counties in accordance with the Constitution, as well as increased adoption of industry self-regulatory mechanisms.

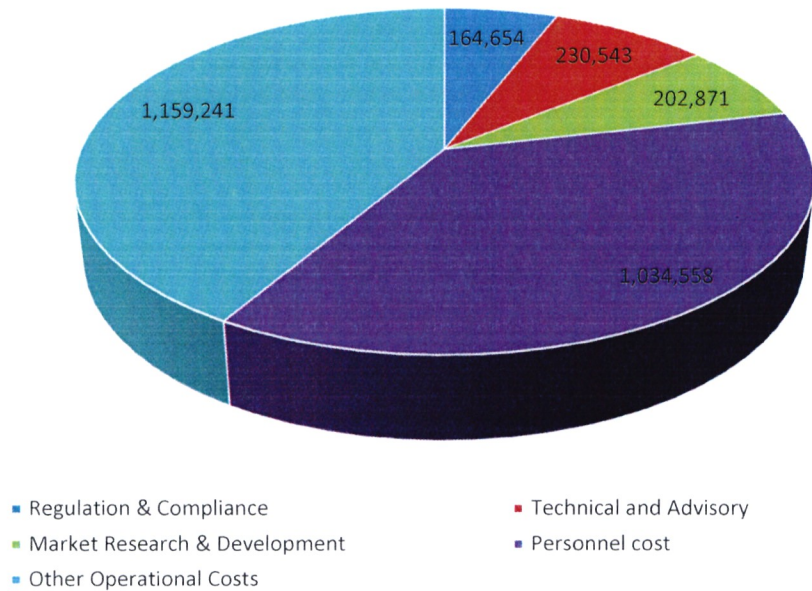
In the financial year 2017-18, the Authority increased allocation to core mandate by Kshs. 197.578 million representing 52% increase. This resulted to an increase of 87% (Kshs 61.65 million) to regulation and compliance, 26% (Kshs. 34.233 million to Technical and Advisory, and 57% (Kshs. 101.69 million) to Market Research & Development. This aimed at enhancing service delivery to stakeholders and making the Authority's programmes more impactful to the society. A breakdown of the authority's budget for 2 years is given here below:-

**Table 1: Allocation of funding to AFA core mandate**

<b>Vote Head</b>	<b>2018-19</b>	<b>2017-18</b>	<b>Variance</b>	<b>% Variance</b>
Regulation & Compliance	164,654	132,210	32,444	25%
Technical and Advisory	230,543	167,218	63,325	38%
Market Research & Development	202,871	278,659	(75,788)	-27%
Personnel cost	1,034,558	1,230,483	(195,925)	-16%
Other Operational Costs	1,159,241	1,294,580	(135,339)	-10%
<b>Total</b>	<b>2,791,867</b>	<b>3,103,150</b>	<b>(311,283)</b>	

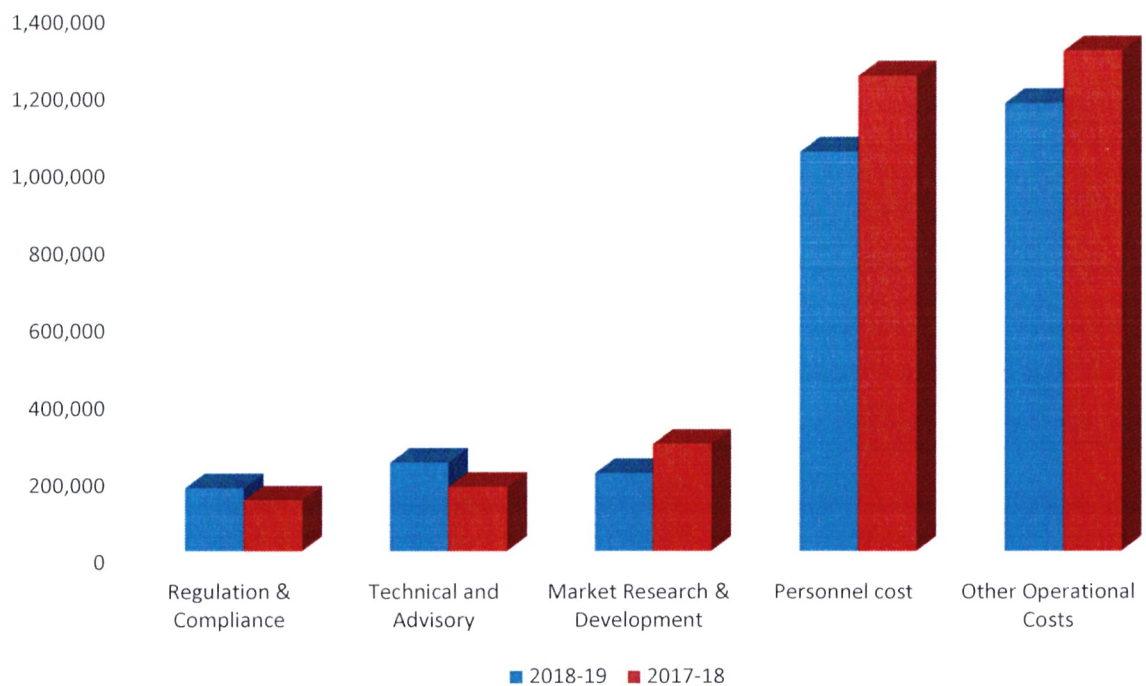
The breakdown is graphically illustrated below:

**Breakdown of the Authority's Budget for the FY 2018-19**



A comparative analysis of the budget for the two years is given as follows:

**Comparative Analysis of the 2018-19 & 2017-18 FY Budgets**



## **Agriculture and Food Authority**

### **Financial Statements for the Year Ended 30th June 2019**

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With the Revocation of Levies on Coffee, Tea and Sugar in 2016, over 80% of the Authority's revenues emanate from government grants, supplemented by internally generated funds. In the period under review, Government grants were inadequate to fully finance AFA planned projects, leading to significant scaling down. In the Sugar Sector, the Authority had targeted to upgrade the two Cane Testing Units (CTUs) in Nzoia and South Nyanza Sugar Companies to an operable state, but this was not realized. Other CTU related activities that were hampered by the lack of funds were: installation of back-up generators to stabilize power supply; and Certification of the CTU Laboratories. Further, AFA had targeted to hold an investors' conference to stimulate commercial seed cane production as a means of generating good quality seed cane to revamp to declining supply of raw material. This was also not realized on account of unavailability of resources. In the Tea Sector, the Authority had targeted to set up a Value Added Specialty Tea Products Incubation Centre to spur diversification from over production of Black CTC Teas. This was however not achieved, despite commitment under the Government's Medium term Plan - MTP III and the Agriculture Sector Transformation and Growth Strategy – ASTGS. Consequently, AFA was not able to fully execute its mandate as provided for by the AFA and Crops Acts.

Apart from the challenges of funding, a continued dry spell interfered with the Authority's plan to ensure the production of good quality cotton seed. It was envisaged that by the end of the Financial Year 2018-2019, the Authority would have generated 40MT of basic seed of the HART 89 and KSA 81M improved varieties. In year 2019/20 the 40MT of basic seed was expected to generate 4,000MT of certified seed generation 2(CG2) which would be more than enough to plant the projected area of 127,600 acres under cotton. With this achievement, it was expected that the cotton value chain would stop relying on recycled seed from the ginneries. This however was not realized and the Authority intends to undertake the initiative in 2019-2020.

## **VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING**

### **INTRODUCTION**

Social Responsibility is one of the core values of the Agriculture and Food Authority and as such, the Authority is committed to giving back to the community in line with national development strategies. Agriculture and Food Authority's Corporate Social Responsibility policy is driven by the need to preserve the environment, and promote socio-economic development through sponsorship and participation in activities that enhance the livelihood of other members of the society. For the Agriculture and Food Authority, it also means a commitment to integrate responsible practices into daily business operations, monitor and evaluate progress made and achievements gained through the implementation of these practices. It is also an indication to our stakeholders that the organization cares about the community.

To facilitate execution of CSR programmes, AFA has developed a CSR Policy that is aligned to the Vision 2030 and appointed a CSR Committee, whose role is to evaluate CSR requests and make recommendation for AFA's sponsorship.

### **AREAS OF FOCUS**

The Policy's key focus is on the following areas: Community Service, National disaster and Humanitarian support.

**Education:** In recognition that education is the bedrock of the country's economy, AFA supports education through support to schools and individual needy students. This serves to motivate students to strive for excellence and to provide an opportunity to strategically create awareness about AFA and build goodwill among the younger generations.

**Environment & sustainable agriculture:** AFA recognizes the need to promote sustainable agriculture and safeguard the environment and natural resources. The Authority has developed an environmental health and safety services policy, mobilized staff to engage in environment and natural resources preservation projects in the community and sponsored programmes geared towards the preservation of the environment and natural resources.

**Health & Safety:** AFA is committed to ensuring that it adheres to the requisite health and safety standards through the prevention of pollution and efficiency use of resources including energy water and raw materials.

The Authority recognizes that a healthy workforce contributes to the productivity of the organization. It therefore invests in the welfare of its employees through the provision of a Medical scheme that caters for all the medical needs of the employees and immediate families.

**Youth & Gender:** The 2030 vision for gender, youth and vulnerable groups is gender equity in power and resource distribution, improved livelihoods for all vulnerable groups, and responsible, globally competitive and prosperous youth. In line with this, AFA has:

- Improved access of youth and women in business opportunities;
- Provided financial support to women groups to raise their incomes and reduce the gap in estimated earned incomes between men and women;

## **Agriculture and Food Authority**

### **Financial Statements for the Year Ended 30th June 2019**

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- Given priority to female employees in the public sector in order to attain at least 30 per cent representation in recruitment, promotion and appointment of women to all decision making levels;
- Mainstreamed gender in the Authority's activities .

**Community outreach:** Agriculture and Food Authority is committed to being a responsible corporate citizen through the support for appropriate non-political and non-sectarian projects and local charities both with financial and non-financial donations. We aim at supporting the creation of prosperous, educated, sustainable and healthy communities in the environments in which we operate. With a focus on education, health, Sports and the environment, we have developed targeted programmes for local communities, involving commercial sponsorship and significant employee engagement through direct involvement.

**Charitable Donations:** The Authority has allocated for donations to charity and support for good causes especially with respect to food security, health and education. The amount allocated have been administered and allocated on merit by the CSR Committee.

#### **SPONSORSHIP IN 2018/2019**

In the Financial year 2018/2019, AFA participated in the following CSR programmes:

**Tree Planting in Nandi County.** In order to conserve the environment and promote sustainable farming practices, and in line with the Presidential Directive to set aside 10% the Corporate Social Responsibility Budget, the Authority planted 5,000.

**Donation to Kaptagat Forest Rehabilitation:** The Authority in collaboration with the Kenya Forest Service donated 4000 seedlings towards the rehabilitation of Kaptagat Forest

**Donation to Matuga Girls High School:** Agriculture and Food Authority (AFA) received a request from Matuga Girls High School – Kwale County toward price giving for excelling students. Towards this cause, AFA donated Kshs. 150,000.

**Other Donations:** The Authority also donated foodstuff, wheel chairs, craft work tools, sports equipment among others to various schools for the needy and disabled.

- a) Donation to various Schools in Kakamega and Bungoma County:
- b) Daisy School for the physically challenged
- c) Victorious children's home
- d) Butere special school
- e) Mumias school for the deaf
- f) Tumaini Children's Home

## **IX. REPORT OF THE DIRECTORS**

The Directors submit their report for audit for the year ended June 30, 2019. It comprises a period of 12 months showing the performance and state of the Agriculture and Food Authority's Affairs

### **Principal activities**

The principal activities of the entity are to promote best practices in, and regulate, the production, processing, marketing, grading, storage, collection, transportation and warehousing of agricultural as provided for under the Crops Act;

### **Results**

The results of the Agriculture and Food Authority for the year ended June 30, 2019 are set out on page 26 and 27 herein.

### **Financial Performance**

The Authority received a total of Kshs. 4.30 billion (Kshs 2.64 billion in 2017/18) revenues from internally generated sources and Government grants. Further, it generated revenues from rent, interest on fixed deposits received and receivable and other income totalling Kshs. 316.80 million (Kshs. 340.86 million in 2017/18).

From this revenue, the Authority incurred operating expenses totalling to Kshs. 4.83 billion (Kshs. 2.68 billion in 2017/18). The major costs are:

- Disbursement of Sugar Arrears (Kshs. 2.09 billion)
- Employee costs Kshs. 1.002 billion (Kshs. 1.039 million in 2017/18)
- Operating Expenses Kshs. 594.76 million (Kshs. 621.77 million in 2017/18) and,
- Repairs and maintenance Kshs. 281.50 million (Kshs. 277.591 million in 2017/18).

Net Loss for the year is Kshs. 208.22 million (Kshs. 293.24 million surplus in 2017/18) which represents a surplus margin of -0.05 % (10.77 % in 2017/18).

### **Financial Position**

The Authority has total net assets worth Kshs. 15.86 billion (Kshs. 16.09 billion in 2017/18) comprising of non-current assets of Kshs. 10.7 billion (Kshs. 10.89 billion in 2017/18) and current assets of Kshs. 6.86 billion (Kshs. 6.67 in 2017/18). Current Liabilities stood at Kshs. 1.38 billion (Kshs. 1.14 billion in 2017/18) giving a working capital ratio of 5:1 (5.84:1 in 2017/18) thus indicating a healthy working capital position.

### **Directors**

The Authority does not have a Board of Directors in place

### **Auditors**

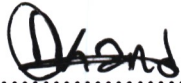
The Office of the Auditor General is responsible for the statutory audit of the Authority in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

**Agriculture and Food Authority**  
**Financial Statements for the Year Ended 30th June 2019**

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**Approval of the financial statements**

The Agriculture and Food Authority's financial statements were approved on behalf of the Board of Directors on 30/08/2019:



.....  
**DIRECTOR**

**X. STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Section 81 of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act, require the Directors to prepare financial statements in respect of that Authority, which give a true and fair view of the state of Affairs of the Authority at the end of the financial year/period and the operating results of the Authority for that year. The Directors are also required to ensure that the Authority keeps proper accounting records which disclose with reasonable accuracy the financial position of the Authority. The Directors are also responsible for safeguarding the assets of the Authority.

The Directors are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of Affairs of the Authority for and as at the end of the financial year ended on June 30, 2018. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Authority; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Authority; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Authority financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Authority's financial statements give a true and fair view of the state of Authority's transactions during the financial year ended June 30, 2019, and of the Authority's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Authority, which have been relied upon in the preparation of the Authority's financial statements as well as the adequacy of the systems of internal financial control.

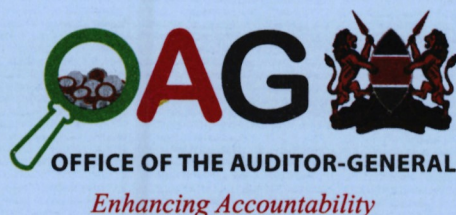
Nothing has come to the attention of the Directors to indicate that the Authority will not remain a going concern for at least the next twelve months from the date of this statement.

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**Director**

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**Director**

# REPUBLIC OF KENYA

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## **REPORT OF THE AUDITOR-GENERAL ON AGRICULTURE AND FOOD AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2019**

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### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Adverse Opinion**

I have audited the accompanying financial statements of Agriculture and Food Authority set out on pages 26 to 54, which comprise the statement of financial position as at 30 June, 2019, and the statement of financial performance, statement of changes in net assets, statement of cash flows and the 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 have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Agriculture and Food Authority as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and do not comply with the Public Finance and Management Act, 2012.

#### **Basis for Adverse Opinion**

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

###### **1.1 Property, Plant and Equipment whose Ownership is not Confirmed**

The statement of financial position reflects a balance of Kshs.10,671,296,000 under property, plant and equipment, which as previously reported, includes several properties whose ownership status had not been established as explained below:

- (i) The balance includes an amount of Kshs.72,000,000 in respect of land measuring 236.35 hectares in Thika, Kiambu County. However, land measuring 137.2 hectares out of the 236.35 hectares which was bought with funds from the defunct Coffee Board of Kenya, was registered in the name of a former Chairman. No evidence was provided that the former Chairman refunded the amount incurred in acquiring the land.

- (i) The reported property plant and equipment balance included an amount of Kshs.161,200,000 representing the value of land on which the defunct Horticultural Crops Development Authority (HCDA) depots stand and for which title deeds had not been obtained.
- (ii) Included in the reported property, plant and equipment balance is an amount of Kshs.1,280,000,000 in respect of two parcels of land relating to the former Horticultural Crops Development Authority for which the Organization did not have ownership documents. The parcels include a plot situated along Mombasa road, measuring 3.5 hectares valued at Kshs.692,000,000 which was allocated to a private developer even although the Authority holds an allotment letter. Although a ruling by the National Land Commission (NLC) was in favour of the Authority, the private developer had not vacated the land as at the date of the report. Further, the Authority had not obtained ownership documents for the parcel of land at the Jomo Kenyatta International Airport (JKIA) valued at Kshs.588,000,000 where the Horticultural Crops Directorate (HCD) is located.
- (iii) As previously reported, in the year 2000, Horticultural Crops Directorate constructed a depot in Machakos at a cost of Kshs.55,677,000. The depot was one of the seven satellite depots meant for Horticultural Produce Handling Facilities (HPHF). Although the facility's sole purpose was to pre-cool horticultural produce and provide market access support for smallholders, the facility is currently occupied by the County Government of Machakos. No evidence was provided that the County Government had signed a lease agreement with the Authority for use of the facility as at the date of this report.
- (iv) The reported property, plant and equipment balance includes a piece of land measuring 8.1 hectares valued at Kshs.1,600,000,000 located in Embakasi which was previously owned by the Coffee Board of Kenya from October, 1986. However, the land remained unutilized and is prone to illegal acquisition by informal squatters. Additional information indicated that a Development Company also claimed to have acquired the parcel on 03 July, 2009. It was not clear how the Company came to own the parcel of land.

## **1.2 Un-disclosed Non-Current Assets**

The reported property, plant and equipment balance excluded the value of various assets as explained below:

- (i) The fixed assets register provided for audit revealed that the Authority had excluded ten (10) acres of land situated in Wundanyi, Taveta and one hundred and twenty-seven (127) acres situated in Kitui valued at Kshs.36,600,000 and Kshs.4,000,000 and allocated to the defunct Horticultural Crops Development Authority and the defunct Cotton Board of Kenya, respectively. No explanation was provided for the failure to include the two pieces of land in the assets register and the financial statements of the Authority.

- (ii) The reported property, plant and equipment balance excludes seven acres of land in Mtwapa that had been allocated to the defunct Kenya Coconut Development Authority by the defunct Kenya Agricultural Research Institute. In addition, the ownership had not been transferred by the Kenya Agricultural Research Institute by the time the Authority ceased to exist upon the commencement of the Crops Act, 2013.
- (iii) The defunct Cotton Board of Kenya had property, plant and equipment with a net book value of Kshs.210,759,785 and investments of Kshs.13,940,758 in Meru Ginnery Limited as at 30 June, 1993. However, the Management did not satisfactorily explain how these property, plant and equipment were accounted for upon the creation of the defunct Cotton Development Authority.
- (iv) The value of motor vehicle registration number KBG 517C, which was registered in the name of Coffee Research Foundation was removed from the books of accounts of the Authority under unclear circumstances.
- (v) The reported property, plant and equipment balance excludes capital expenditure totalling Kshs.2,289,347,764 incurred on the acquisition of the Cane Testing Units and Laboratories in the years 2014 up to 2018.
- (vi) The property, plant and equipment balance of Kshs.10,671,296,000 excludes the value of a property in Riverside Estate where the defunct Cotton Development Authority's Head Office was located. Information available indicates that the property belonged to the defunct Cotton Board of Kenya and was charged against a bank loan that the Board failed to service. The bank subsequently sold the property for Kshs.21.5 million through a public auction held in November, 2000.

Further, records show that the purchaser of the property paid the bank an amount of Kshs.8,375,000 representing the balance of the outstanding loan, upon which the bank released the documents relating to the property to the purchaser. The purchaser thereafter sought to transfer the title to the property in his name before clearing the balance of Kshs.13,125,000. The Board, however, declined to execute the transfer documents and the purchaser filed a case in the High Court in November, 2008. Although the case was determined on 25 September, 2015, the Authority has not obtained the title deed to the property and consequently the ownership could not be confirmed.

In the circumstances, the accuracy, completeness and ownership status of the reported property, plant and equipment balance of Kshs.10,671,296,000 as at 30 June, 2019 could not be confirmed.

## **2. Investments in Subsidiary**

As previously reported, the statement of financial position reflects a balance of Kshs.389,000 under investments which relates to investments on coffee exchange shares. However, the reported investment balance of Kshs.389,000 differed with the amount of Kshs.148,200 reflected in the share certificates, resulting in an unexplained difference of Kshs.240,800.

In the circumstances, the accuracy of the value of investments reflected in the financial statements could not be confirmed.

### **3. Cash and Cash Equivalents**

The statement of financial position reflects cash and cash equivalents balance of Kshs.3,358,668,000 which, as disclosed in Note 24 to the financial statements, includes bank balances totalling to Kshs.1,365,308,000. The following anomalies were noted regarding the balance:

#### **3.1 Inaccurate Bank Reconciliation Statement**

Bank reconciliation statement for the Sugar Farmers Arrears Account No. 01141588031600 in the Co-operative Bank of Kenya as at 30 June, 2019 reflected a reconciled cash book bank of Kshs.16,685,765. Examination of payments made through the Bank revealed that a total of Kshs.8,110,540 was in respect of rejected payments to farmers. However, this amount differs with the reconciliation statement which reflects a nil balance. The difference was not explained.

#### **3.2 Authority to Operate Bank Accounts**

A review of available bank statements and cash books of the Authority for the financial year 2018/2019 revealed that the Authority operated forty-one (41) bank accounts instead of twenty-three (23) as provided under The National Treasury Circular Ref: AG.3/88/1/33 dated 17 May, 2018. Further, the following accounts which were ordered closed were still operational:

<b>Directorate</b>	<b>Account</b>	<b>Bank</b>	<b>Amount (Kshs.)</b>
Sugar Directorate	1001009339300	NBK	512,437
Sugar Directorate	1001419222	NCBA	254,895

#### **3.3 Undisclosed Balances**

The Authority maintained a bank account at Barclays Bank of Kenya (now Absa Bank) which had a balance of Kshs.3,042,697 as at 30 June, 2019. However, the balance was not included in the reported cash and cash equivalents balance. In addition, bank reconciliation statements were not prepared contrary to Regulation 90(1)(3) of the Public Finance Management (National Government) Regulations, 2015.

#### **3.4 Dormant, Inactive and Overdrawn Accounts**

Examination of bank reconciliation statements and cash books of the Authority revealed that the following bank accounts were either dormant or overdrawn as analyzed below:

Directorate	Account	Amount (Kshs.)	Status
Sugar Directorate	NIC-Account 100141922	254,895	Dormant
Sugar Directorate	NBK-Account 01001032736101	313	Dormant
Sugar Directorate	NBK-Account 01281088502500	464	Dormant
Sugar Directorate	NBK-Account 01001009339300	512,437	Dormant
Nuts and Oils	Co-op Bank-Account 1141226285000	(17,380)	Overdrawn

The Authority incurred bank charges on accounts which were dormant. In addition, authority to overdraw the bank account was not provided.

### 3.5 Unexplained Opening Balance Adjustment

The June 2019 bank reconciliation statement for the National Bank of Kenya Account No.1001031599900 reflected a reconciled cash book balance of Kshs.230,013,392. However, included in the unrepresented cheques was Kshs.16,025,011 described as opening balance adjustment dated 01 July, 2016 and for which supporting documents were not provided.

### 3.6 Escrow Account

The Authority holds an escrow bank account at the Kenya Commercial Bank which had a balance of Kshs.8,581,797 as at 30 June, 2019. Although the Management clarified that the case for which the amount was held, was determined and a ruling issued, documentation on the determination of the case and payments made were not provided. Consequently, the validity of the escrow account could not be established.

### 3.7 Lost Investment in Euro Bank

As disclosed in Note 24 to the financial statements, included in the cash and cash equivalents balance of Kshs.3,358,668,000 are the short-term deposits of Kshs.1,631,929,000. As previously reported, the short-term deposits includes an amount of Kshs.52,237,374 in respect of deposits placed in Euro Bank which was placed under receivership in the 1990s. Although the deposits were provided for in full, the Authority has not provided evidence of the efforts made to recover the deposits.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.3,358,668,000 as at 30 June, 2019 could not be confirmed.

## 4. Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transactions balance of Kshs.3,491,148,000. The following matters were noted regarding the balance:

### 4.1 Long Outstanding Receivables

As disclosed in Note 25 to the financial statements, the reported receivables balance includes trade debtors totalling to Kshs.3,457,964,000. The trade debtors includes an amount of Kshs.229,121,575.89 relating to the Sugar Development Fund which has remained outstanding in the books of the Authority for a long period of time and of which

an amount of Kshs.136,218,914 representing 59% of the balance related to rebates and borrowings as detailed below:

<b>Customer No.</b>	<b>Payee</b>	<b>Amount (Kshs.)</b>
CUST0063	SDL rebate on 2003/04 sugar exports	28,462,604
CUST0064	VAT refunds on export sugar (Mumias 2003/04)	66,263,199
CUST0068	Pyrethrum Directorate Borrowings	41,493,111
	<b>Total</b>	<b>136,218,914</b>

In addition, the receivables under headquarters included an amount of Kshs.199,519,415.40 relating to Pyrethrum Processing Company which had remained outstanding for a long time.

#### **4.2 Long Outstanding Levy Arrears**

The trade debtors totalling Kshs.3,457,964,000 includes long outstanding levy arrears of Kshs.2,897,023,170 (83% of total receivables) as detailed below:

<b>Customer No.</b>	<b>Company</b>	<b>Amount (Kshs.)</b>
CUST0027	Sundry Importers	25,170,544
CUST0028	South Nyanza Sugar Company	346,801,943
CUST0029	Miwani Sugar Company (In Receivership)	121,057,793
CUST0030	Mumias Sugar Company	495,023,752
CUST0031	West Kenya Sugar Company	15,502,135
CUST0032	Nzoia Sugar Company	831,890,653
CUST0033	Muhoroni Sugar Company (In Receivership)	439,443,502
CUST0034	Chemelil Sugar Company	459,799,716
CUST0035	Kibos Sugar and Allied Industries	123,664,679
CUST0036	Soin Sugar Company	6,334,448
CUST0037	Butali Sugar Company	17,583,067
CUST0038	Transmara Sugar Company	8,443,624
CUST0039	Sukari Industries Ltd	99,684
CUST0040	Jaggeries	848,831
CUST0041	Kenya National Trading Corporation	5,358,800
	<b>Total</b>	<b>2,897,023,170</b>

The Management has not explained the measures put in place to recover the above amounts.

### 4.3 Unsupported Rent Debtors

The receivables from exchange transactions balance of Kshs.3,491,148,000, as disclosed under Note 25 to the financial statements, includes rent debtors totalling Kshs.31,161,000. Included in the rent debtors are amounts of Kshs.6,668,230 and Kshs.24,162,356 relating to the Sugar and Horticultural Crops Directorates respectively. However, the Authority did not provide documentary evidence to support the balances.

Further, the schedule of rent debtors reflected an amount of Kshs.6,093,169 against Coffee Directorate which differs with the amount of Kshs.7,747,265 confirmed by the service provider. The resulting variance of Kshs.1,654,096 was not explained.

### 4.4 Lease of Horticultural Produce Handling Facilities

As previously reported under the defunct Horticultural Crops Development Authority, the Authority signed an agreement with Fresh Produce Exporters Association of Kenya (FPEAK) for the lease of its Horticultural Produce Handling Facilities (HPHF). However, as per the agreement signed in September, 2012, FPEAK took over the facilities without any rent or charges payable to the Authority. Further, available information indicates that according to the valuation report dated 07 September, 2011 from the Ministry of Lands, the Authority should have charged a total rent of KShs.3,770,000 per annum for lease of these facilities.

Further, information available indicates that the Authority managed to repossess all the cold rooms from FPEAK and it is already leasing them and generating income. The Authority has also made demands for recoveries of the rent payable for the period the facilities were occupied by FPEAK. However, no recoveries have been made for the period when the facilities were under the use of FPEAK.

In the circumstances, the accuracy, completeness and full recoverability of receivables from exchange transactions balance of Kshs.3,491,148,000 could not be confirmed.

## 5. Trade and Other Payables from Exchange Transactions

### 5.1 Long Outstanding Payables

The statement of financial position reflects a balance of Kshs.698,861,000 under trade and other payables from exchange transactions which, as disclosed in Note 27 to the financial statements, includes an amount of Kshs.676,727,000 related to trade payables. However, trade payables amounting Kshs.536,048,131 or (79%) were long outstanding, with some dating back to the year 2011 as detailed below:

Vendor ID	Payee/Name	Directorate	Amount (Kshs.)
VEND0059	Munyao Muthama and Kashindi Advocates	Sugar	929,000
VEND0311	Bifuel For Kenya (norad)	Sugar	926,000
VEND0184	Sugar Research Levy	Sugar	444,776,697
VEND0015	Controller and Auditor General	Sugar	6,838,000

<b>Vendor ID</b>	<b>Payee/Name</b>	<b>Directorate</b>	<b>Amount (Kshs.)</b>
VEND0066	Ndungu Gathinji	Sugar	5,679,113
	<b>Sub-total</b>		<b>459,148,809</b>
VEND00001	Kenya Airports Authority	Horticulture	66,788,067
VEND00004	Cortec System and Solutions Ltd	Horticulture	3,789,588
VEND00005	Kenya Shell Ltd	Horticulture	2,804,228
VEND00006	Shelcon Tech Services	Horticulture	2,017,401
VEND00009	Sundry Creditors	Horticulture	1,500,039
	<b>Sub-total</b>		<b>76,899,322</b>
	<b>Grant-Total</b>		<b>536,048,131</b>

No reason has been provided for the failure to settle the long outstanding payables.

## **5.2 Unapproved Write-off of Trade and Other Payables**

The trade and other payables from exchange transactions balance of Kshs.698,861,000 excludes payables of Kshs.2,636,872,172 relating to the defunct Coffee Board of Kenya, which had been written off as an old balance on the recommendation of a consultant. However, approvals for the write-off from both the Parent Ministry and The National Treasury have not been provided for audit review.

In the circumstances, the accuracy and completeness of the trade and other payables balance of Kshs.698,861,000 as at 30 June, 2019 could not be confirmed.

## **6. Unsupported Capital Grant Reserve Utilization**

The statement of changes in net assets reflects amounts of Kshs.31,824,000 and Kshs.3,325,000 under grant reserves and retained earnings respectively described as capital/development grant utilized during the year. The amount under grant reserves was attributed to grants to Sugar Companies during the year. However, no documentary evidence was provided to support the disbursements to the Sugar Companies and in support of the amount of Kshs.3,325,000 under retained earnings. Consequently, the accuracy and validity of the amounts could not be confirmed.

## **7. Revenue from Exchange Transactions**

The statement of financial performance reflects rental revenue totalling Kshs.152,277,000 which, as disclosed in Note 9 to the financial statements, includes rental income from buildings amounting to Kshs.123,921,000. A review of available records revealed the following:

### **7.1 Irregular Property Management Services and Reduced Rental Charges**

The lease agreements were drawn between the tenants and the property management company instead of the Landlord (AFA) in spite of the fact that the agency agreement had not authorized the agent to enter into lease agreements with tenants. Furthermore, the agent had reviewed the rent charges downwards for some tenants without the approval of the Authority as shown below:

Tenant Name	Space Leased (Sq.Ft)	Date of Lease Renewal	Old Lease Quarterly Rates (Kshs.)	New Lease Quarterly Rates (Kshs.)
Kenya Quarry & Mines workers Union	510	17/12/2018	121,176	84,150
Winalight Company Limited	350	09/01/2020	83,160	57,750
Pankim Office Supplies	964	21/01/2020	229,047	159,060

No explanation was provided for the reduced rental charges.

## 7.2 Unsupported Rental Lease Agreements at the Coffee Directorate

The reported rental income from buildings totalling Kshs.123,921,000 includes an amount of Kshs.93,416,027 earned by the Coffee Directorate for Kahawa House and Coffee Plaza. Examination of schedules provided for audit revealed that the Coffee Directorate had a rental space of 48,418 square feet, 9 No. parking bays at Coffee Plaza and 155,170 square feet rental space with 30 No. parking bays for Kahawa House. The Directorate provided a list of tenants numbering eight (8) for Kahawa House, seventy-five (75) for Coffee Plaza and twenty (20) parking bays. However, although Kahawa House was fully let out, lease agreements with two (2) tenants occupying 21,000 square feet were not provided.

In addition, a total space of 39,258 square feet had been leased to 77 tenants at Coffee Plaza. However, lease agreements for an area of 2,425 square feet leased to five (5) tenants were not provided.

Further, available information indicated that twelve (12) tenants who had occupied the building did not appear in the database of tenants provided by the Coffee Directorate.

In the circumstances, the accuracy and completeness of the reported rental income from buildings of Kshs.123,921,000 could not be confirmed.

## 7.3 Unconfirmed Value Added Tax Charged on Rental Income from Buildings

According to schedules provided for audit, the Coffee Directorate paid Value Added Tax (VAT) amounting to Kshs.9,245,580 on rental income. However, a scrutiny of the schedules and VAT monthly rent sheets provided by the service provider revealed that rental income on all properties was not subjected to VAT as provided by the lease agreements. Further, the Management applied VAT on the net rent remitted by the service provider after deducting fees from the rent collected.

Under the circumstances, the accuracy and completeness of the rental income earned and VAT paid thereon could not be confirmed.

#### **7.4 Sub-Letting of Premises by the Tenants**

According to the lease agreements, the tenant was not permitted to transfer, assign, sublet or part with possession of the premises or part of it to any third party at any time during the course of the lease. Upon breach of the covenant, the Landlord may re-enter the premises and thereupon, the lease shall be terminated absolutely. However, audit inspection at Coffee Plaza on 27 April, 2020 revealed that three (3) tenants had sublet the premises without any approval or knowledge of the Management. Further, rental income from the subleasing was not accounted for or reflected in the AFA records and no action had been taken to terminate the leases.

#### **7.5 Non-Accountability of Deposits and Late Payments by Tenants**

The lease agreements provided for three (3) months security deposits from tenants to be retained by the Landlord as security for the performance under the lease. However, only two deposits were accounted for in the financial statements. The accounted for deposits include an amount of Kshs.1,710,000 and a legal cost of Kshs.100,000 paid by the Equity Bank but not remitted by the service provider. Further, the lease agreements did not provide for penalty for late payment of rent.

#### **7.6 Dilapidated Kahawa House**

As previously reported, Management had planned to spend an amount Kshs.54,650,000 for major renovations, electrical repairs, refurbishment of washrooms and interior painting of Kahawa House. Examination of the procurement plan for financial year 2018/2019 revealed a provision for renovation of Kahawa House. However, no such works had taken place during the financial year and no explanation was provided for non-rehabilitation of the building.

Further, Kahawa House has a gross leasable area of approximately 155,170 square feet but only an area of 75,170 square feet had been let out resulting in under-utilization of the building by 80,000 square feet. Rent was charged at Kshs.600 per square foot translating into lost rental income amounting to Kshs.48,000,000 per month or Kshs.576,000,000 per annum.

### **8. Disbursements to Sugar Farmers**

The statement of financial performance reflects disbursement to farmers arrears of Kshs.2,085,430,000 which, as disclosed in Note 15 to the financial statements, relates to disbursements to farmers through five (5) sugar companies. Review of documents and records revealed the following:

#### **8.1 Variances Between Financial Statements Figures and Bank Payments**

The balances disclosed in the financial statements differed with the balances reflected in the bank statements as detailed below:

<b>Sugar Company</b>	<b>Financial Statements Balance (Kshs.)</b>	<b>Bank Statements Payments (Kshs. )</b>	<b>Difference (Kshs.)</b>
Mumias Farmers	754,441,000	745,437,702	9,003,298
Sony Farmers	397,638,000	383,379,281	14,258,719
Muhoroni Farmers	374,350,000	372,732,276	1,617,724
Nzoia Farmers	425,845,000	447,240,137	(21,395,137)
Chemilil Farmers	133,156,000	142,053,209	(8,897,209)

No reconciliation or explanation has been provided for these variances.

## **8.2 Variances Between Approved Amounts to Be Paid and Bank Payments**

A review of the Authority's bank statement for Cooperative Bank of Kenya Account No. B114158031600 revealed that The National Treasury released a total of Kshs.2,102,120,935 for payment of farmers arrears for the year ended 30 June, 2019. However, examination of the bank payments and allocated amounts for the five public sugar mills (Ref. MOA/ A.11/10A/VOL.IV /4) revealed the following variances:

<b>Sugar Company</b>	<b>Approved Amounts (Kshs.)</b>	<b>Bank Statement Payments (Kshs.)</b>	<b>Variance (Kshs.)</b>
South Nyanza Sugar Co.	400,901,091	383,379,281	17,521,810
Mumias Sugar Co.	763,446,175	745,437,702	18,008,473
Nzoia Sugar Co.	426,316,339	447,240,137	(20,923,798)
Muhoroni Sugar Co.	375,957,331	372,732,276	3,225,054
Chemilil Sugar Co.	135,500,000	142,053,209	(6,553,209)

No reason was given for the failure to pay the actual amounts stipulated by The National Treasury.

## **8.3 Farmers Not in the Vetted List**

A comparison between the approved list of sugar cane farmers and bank payments details revealed that six hundred and seventy-two (672) farmers paid a total of Kshs.116,027,808 were not in the approved list of farmers. No explanation was provided for this anomaly.

## **8.4 Variance Between Amounts Paid and Approved**

The approved list released by The National Treasury detailed the sugar cane farmers' names, amounts to be paid (being amounts owed by government owned companies) and bank accounts. However, a review of bank payments details against the approved list of farmers showed that 671 farmers were paid a total of Kshs.398,906,772 which differed with the approved amounts of Kshs.237,323,279 resulting to a variance of Kshs.161,583.493. Further analysis of the list revealed that 202 farmers were overpaid by

Kshs.29,076,081 while 469 farmers were underpaid by Kshs.190,659,573. No explanation was provided for these anomalies.

Further each farmer was underpaid by an unexplained constant amount of Kshs.180 per transaction translating into a total of Kshs.17,304,191 for 11,768 farmers for multiple transactions.

### 8.5 Farmers with More than One Account

A test of duplicates on the bank payments data showed that a total of 2319 farmers with a total amount of Kshs.179,062,645 had more than one account. No explanation has been provided for the anomaly or the rationale behind farmers having more than one account.

### 8.6 Unconfirmed Disbursement of Farmers Arrears to Companies, SACCOs and Shares Accounts by Farmers

Payments details indicate that sugar companies were paid a total amount of Kshs.267,162,668 for farmers arrears through the bank accounts detailed below:

Bank Account No	Name	Total (Kshs.)
1120054662900	Chemelil Sugar Company Ltd	1,003,368
1120054662901	Chemelil Sugar Company Ltd	83,267,922
102029114100	Miwani Sugar (In Receivership)	182,891,378
	<b>Total</b>	<b>267,162,668</b>

Further, an amount of Kshs.234,190,618 was paid to SACCOs on behalf of the farmers. In addition, analysis of bank payments made included unconfirmed payments of Kshs.163,402,739 to 4,782 farmers sharing the same bank accounts as follows:

Bank Account No.	Sum of Total (Kshs.)	Count of Name
1104121573	139,854,210	4,326
1009055044400	14,416,884	337
1112021760	1,938,892	46
1120012311900	2,970,966	40
1108069169	1,903,706	27
1104064421	2,318,081	6
<b>Total</b>	<b>163,402,739</b>	<b>4,782</b>

No returns and analysis of the farmers sharing the same account were provided by the sugar companies and SACCOs to confirm that the farmers actually received the money.

From the foregoing the validity, accuracy and completeness of disbursement to farmers arrears of Kshs.2,085,430,000 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Agriculture and Food Authority Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical

responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

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

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

#### **1. Un-Adopted Job Evaluation Report and Pending Harmonization of Staff Salaries**

The statement of financial performance and Note 13 to the financial statements reflect employee costs totalling Kshs.1,001,976,000. The Authority was formed vide the Agriculture and Food Authority Act, 2013 and Crops Act, 2013 to take over all assets and liabilities of the defunct Authorities and Boards under the Ministry of Agriculture. As a result, the Authority took over all the employees of the defunct Institutions and the staff were put on interim appointments on 20 August, 2014. As previously reported, the employees were still on interim contracts.

In addition, the Authority was yet to harmonize the staff's terms and conditions of service despite the Authority contracting a consulting firm to conduct a job evaluation and its request to the Salary and Remuneration Commission vide its letter AFA/HRM/28 dated 20 July, 2017, which provided that the Authority be allowed to finalize the process of harmonization of terms and placement of staff within two months from the date of the letter.

#### **2. Construction of Cane Testing Units**

The statement of financial performance reflects an expenditure of Kshs.281,499,000 on repairs and maintenance. As disclosed in Note 17 to the financial statements, an amount of Kshs.243,932,000 was incurred on repairs of plant and equipment of which Kshs.240,500,016 related to maintenance of cane testing units. However, as previously reported, the Projects had not been operationalized at an industrial level and therefore the benefits of the cane testing units had not been realized eight (8) years after their initial launch. Further, it was not clear whether the cane testing units were useful to the sugar

mills considering that the sugar mills had not fully embraced payment of farmers based on sucrose content as envisaged when the project was initiated.

### 3. Payments Processed without Purchase Orders

Section 106(5)(a) and (b) of the Public Procurement and Asset Disposal Act, 2015 requires a procuring entity to place a purchase order with the person submitting the successful quotation who should confirm the purchase order in writing. However, instances were noted where vendor invoices were processed for payments without an official contract in form of purchase orders with vendors as summarized below:

Directorate	Amount (Kshs.)
Coffee	9,403,938
Fibre	713,800
Food	1,153,914
Horticulture	8,715,389
Headquarters	595,210,768
Nuts and Oils	199,922
POID	2,056,601
Sugar	10,331,192
Tea	40,161,033
<b>Total</b>	<b>667,946,556</b>

In the circumstances, the regularity of the payments could not be confirmed.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

#### REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

##### Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

## **Basis for Conclusion**

### **1. Lack of Substantive Board Members**

As previously reported, the Authority functioned without a substantive Board of Directors from 07 November, 2017 when the term of the interim Board Members lapsed.

There was, therefore, no support to the Accounting Officer with regard to responsibilities for issues of risk, control and governance and associated assurance and follow up on implementation of recommendations of internal and external auditors as envisaged under Regulation 175 of the Public Finance Management (National Government) Regulations, 2015.

### **2. Information Technology (IT) Internal Controls**

#### **2.1 IT Governance Gaps**

The Authority had not instituted an ICT Strategic Committee or an IT Steering Committee. In addition, a formal, documented and tested emergency procedure for use in the event of an unforeseen occurrence had not been established neither did the Authority have an approved Disaster Recovery Plan.

#### **2.2 ICT Infrastructure Weaknesses**

The Authority uses an ERP (Enterprise Resource Planning) Solution system with various modules, namely, Finance, Customer Relationship Management, and Human Resource Management. All the directorates are linked through the system. However, the Authority had not achieved full connectivity and integration between the Headquarters and its Directorates. System generated financial records could thus not be accessed on demand from the Headquarters.

In addition, the Horticulture Development Directorate implemented an upgrade to the ERP system while simultaneously running an older version of the ERP. The accounts receivables module which entails cash management, receipting and invoicing was maintained in the older/earlier version and the data was subsequently transferred manually to the upgraded system leaving room for human error. Use of two systems with the same capability may compromise the data of the Horticulture Directorate.

Further, the Authority has an Information Management System that provides for official communication, through staff emails operated within a secure domain. However, the staff used personal emails for official communication posing a risk to data security.

#### **2.3 Sub-modules not Secured and Integrated**

Agriculture and Food Authority maintains its financial information through an ERP system which integrates all functional departments of the Authority namely; human resource, procurement, administration, finance and accounts through sub-modules. A review of the data on payables revealed that the sub modules were not properly secured and integrated because the vendor payment would be processed by keying in the vendor details instead

of the system picking the vendor automatically from the vendor list. Hence, vendors would appear severally with different name formats.

Consequently, there is a risk of the ERP system being manipulated to process unauthorized transactions and the reports generated from the system may not reflect the true position of the account balances.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my 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 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 Authority's ability of to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Authority or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Authority's 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**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed 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.

Further, in planning and performing the audit of the financial statements and audit of compliance, I 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. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.


As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Authority to cease sustaining its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Agriculture and Food Authority to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

  
**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**09 August, 2021**

**Agriculture and Food Authority**  
**Financial Statements for the Year Ended 30th June 2019**

**XII. STATEMENT OF FINANCIAL PERFORMANCE**

	NOTES	2018/2019 Kshs '000	2017/2018 Kshs '000
<b>Revenue from non-exchange transactions</b>			
Government Grants –(Recurrent & Development)	6	4,104,757	2,423,501
Grants from development partners	7	-	3,610
Fines, licenses, permit, penalties and levies	8	195,966	207,914
		<b>4,300,723</b>	<b>2,635,025</b>
<b>Revenue from exchange transactions</b>			
Rental Revenue from facilities and equipment	9	152,277	132,475
Finance Income - External investments	10	144,556	184,121
Finance income - outstanding receivables	11	18,773	24,097
Agency fees		-	-
Other income	12	1,199	167
Total Revenue from exchange transactions		<b>316,805</b>	<b>340,859</b>
<b>Total Revenue</b>		<b>4,617,527</b>	<b>2,975,884</b>
<b>Expenses</b>			
Employee cost	13	1,001,976	1,039,305
Board Expenses	14	-	9,767
Disbursements to Farmers Arrears	15	2,085,430	-
Depreciation and amortization expense	16	239,419	232,647
Repairs and maintenance	17	281,499	277,591
Regulation and compliance	18	146,095	102,214
Technical and advisory	19	240,831	138,582
Market research and development	20	236,443	246,049
Operating / Administrative Expenses	21	594,755	621,773
Finance costs	22	-	13,456
<b>Total expenses</b>		<b>4,826,448</b>	<b>2,681,384</b>
<b>Other gains/(losses)</b>			
Gain on sale of assets		-	-
Gain/(Losses) on foreign exchange transactions	23	705	(1,266)
<b>Surplus for the period</b>		<b>(208,215)</b>	<b>293,235</b>

The notes set out on pages 32 to 51 to form an integral part of the Financial Statements

**Agriculture and Food Authority**  
**Financial Statements for the Year Ended 30th June 2019**

**XIII. STATEMENT OF FINANCIAL POSITION**

	NOTES	2018/2019 Kshs '000	2017/2018 Kshs '000
<b>Current assets</b>			
Cash and cash equivalents	24	3,358,668	3,311,549
Receivables from exchange transactions	25	3,491,148	3,340,855
Receivables from non-exchange transactions	26	12,939	19,604
		<b>6,862,755</b>	<b>6,672,008</b>
<b>Non-current assets</b>			
Property, plant and equipment	34	10,671,296	10,851,702
Investments	33	389	389
Intangible assets (Software, Trademarks and Patents)	35	29,829	41,968
<b>Sub total</b>		<b>10,701,514</b>	<b>10,894,059</b>
<b>Total assets</b>		<b>17,564,270</b>	<b>17,566,067</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables from exchange transactions	27	698,861	724,084
Refundable deposits from customers	28	3,867	3,867
Current Provisions	29	64,559	97,004
Employee benefit obligation	30	609,483	317,695
Tax Obligations	31	1310	512
<b>Sub total</b>		<b>1,378,081</b>	<b>1,143,163</b>
<b>Non-current liabilities</b>			
Non- Current provisions	32	326,820	326,820
<b>Sub total</b>		<b>326,820</b>	<b>326,820</b>
<b>Total liabilities</b>		<b>1,704,901</b>	<b>1,469,983</b>
<b>Net assets</b>		<b>15,859,369</b>	<b>16,096,084</b>
Reserves		15,011,043	15,042,867
Accumulated surplus		848,326	1,053,216
<b>Total net assets and liabilities</b>		<b>15,859,369</b>	<b>16,096,084</b>

The Financial Statements set out on pages 26 to 31 were signed on behalf of the Board of Directors by:-

**Director General**  
**Name: Anthony Mureithi**

Sign..... 

Date..... 30/6/2019

**Head, Finance**  
**Name: Joseph Waweru**

ICPAK M/no 5605  
 for Sign..... 

Date..... 30/6/2019

**Agriculture and Food Authority**  
**Financial Statements for the Year Ended 30th June 2019**

**XIV. STATEMENT OF CHANGES IN NET ASSETS.**

	<b>Revaluation Reserve</b>	<b>Retained Earnings</b>	<b>Capital reserve</b>	<b>Grants reserve</b>	<b>Total</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>	<b>Kshs '000</b>	<b>Kshs '000</b>	<b>Kshs '000</b>
<b>Balance as at 31st July 2018</b>	<b>2,583,989</b>	<b>756,547</b>	<b>533,047</b>	<b>4,052,334</b>	<b>7,925,918</b>
Revaluation of Assets	7,196,924	-	-	-	7,196,924
Surplus/(deficit) for the period	-	293,235	-	-	293,235
Capital/ Dev't Grant - Loan Write-off	-	-	686,243	-	686,243
Transfers to/from accumulated surplus	-	3,434	-	(9,670)	(6,236)
<b>Balance as at 30 June 2018</b>	<b>9,780,913</b>	<b>1,053,216</b>	<b>1,219,290</b>	<b>4,042,664</b>	<b>16,096,084</b>
<b>As at July 2018</b>	<b>9,780,913</b>	<b>1,053,216</b>	<b>1,219,290</b>	<b>4,042,664</b>	<b>16,096,084</b>
Surplus for the period	-	(208,215)	-	-	(208,215)
Capital/ Dev't Grant utilised during the year	-	3,325	-	(31,824)	(28,499)
<b>Balance as at 30 JUNE 2019</b>	<b>9,780,913</b>	<b>848,326</b>	<b>1,219,290</b>	<b>4,010,840</b>	<b>15,859,370</b>

**XV. STATEMENT OF CASH FLOWS**

	NOTES	2018/2019 Kshs '000	2017/2018 Kshs '000
Cash generated from operations			
<b>Surplus for the year before tax</b>		<b>(208,215)</b>	<b>293,235</b>
<b>Adjusted for:</b>			
Depreciation	16	239,419	232,647
Gains and losses on disposal of assets/ foreign exchange	23	(705)	1,266
Transfers to/from accumulated surplus		(28,499)	(6,236)
Finance income		(163,329)	(208,218)
Finance cost	22	-	13,456
<b>Working capital adjustments:</b>			
Increase/Decrease in receivables		(143,629)	127,062
Increase/Decrease in payables		234,918	(632,642)
<b>Net cash flows from operating activities</b>		<b>(70,041)</b>	<b>(179,430)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant, equipment & intangible assets	34	(46,875)	(214,219)
Gains and losses on disposal of assets/ foreign exchange		705	(1,266)
Finance income		163,329	208,218
<b>Net cash flows used in investing activities</b>		<b>117,159</b>	<b>(7,267)</b>
<b>Cash flows from financing activities</b>			
Finance cost	22	-	(13,456)
Write off of borrowings			686,243
<b>Net cash flows used in financing activities</b>		<b>-</b>	<b>672,787</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>47,118</b>	<b>486,091</b>
Cash and cash equivalents at 1 July		3,311,549	2,825,458
<b>Cash and cash equivalents at 30 June</b>	24	<b>3,358,668</b>	<b>3,311,549</b>

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**XVI. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**

	<b>Original budget</b>	<b>Adjustments</b>	<b>Final budget</b>	<b>Actual on comparable basis</b>	<b>Performance difference</b>
<b>ITEM DESCRIPTION</b>	<b>2018-2019</b>	<b>2018-2019</b>	<b>2018-2019</b>	<b>2018-2019</b>	<b>2018-2019</b>
<b>EXPECTED REVENUE</b>	<b>Kshs '000</b>	<b>Kshs '000</b>	<b>Kshs '000</b>	<b>Kshs '000</b>	<b>Kshs '000</b>
Total Internally Generated Income	195,581	-	195,581	195,966	385
Government Recurrent Grant	2,497,501	(566,240)	1,931,261	1,902,636	(28,625)
Government Development Grant	-	50,000	50,000	100,000	50,000
Government Recurrent Grant- Sugar Arrears	-	2,102,121	2,102,121	2,102,121	-
Total Government Recurrent Grant	2,497,501	1,585,881	4,083,382	4,104,757	21,375
Other Recurrent Revenue	794,822	70,000	864,822	316,805	(548,017)
<b>TOTAL REVENUE</b>	<b>3,487,904</b>	<b>1,655,881</b>	<b>5,143,785</b>	<b>4,617,527</b>	<b>(526,258)</b>
Personnel cost	1,234,264	(199,706)	1,034,558	1,001,976	32,582
Board expense	30,342	-	30,342	-	30,342
Disbursements	-	2,102,121	2,102,121	2,085,430	16,691
Operating & Administrative costs	1,535,762	(260,059)	1,275,703	1,218,124	57,579
Repairs and maintenance	68,877	227,810	296,687	281,499	15,188
Finance cost	13,192	-	13,192	-	13,192
Depreciation and Amortization	141,386	-	141,386	239,419	(98,033)
<b>TOTAL EXPENDITURE</b>	<b>3,023,822</b>	<b>1,870,166</b>	<b>4,893,988</b>	<b>4,826,448</b>	<b>67,540</b>
Total Other Gains/(Losses)	-	-	-	705	(705)
<b>SURPLUS</b>	<b>464,082</b>	<b>(214,285)</b>	<b>249,797</b>	<b>(208,216)</b>	<b>(458,717)</b>
<b>CAPITAL BUDGET</b>					
Buildings	298,500	(217,000)	81,500	8,386	73,114
Automobiles	71,100	(55,100)	16,000	14,738	1,262
Computer and Electronic Equipment	46,135	(2,000)	44,135	16,191	27,944
Office and Communication Equipment	48,210	(5,000)	43,210	3,936	39,274
Furniture and Fittings	15,254	(400)	14,854	3,424	11,430
<b>TOTAL CAPITAL BUDGET</b>	<b>479,199</b>	<b>(279,500)</b>	<b>199,699</b>	<b>46,675</b>	<b>153,024</b>

## **VARIANCE ANALYSIS**

The budget is on directorate's programmes to be undertaken during the financial year. The Authority reviews its budget depending on the performance of individual programme/ activities in the sixth month of the implementation. Variances have been explained below;

### **1. Government Grants**

The total amount received by the Authority in the FY 2018/19 is Kshs 1.903 billion against a target of Kshs. 1.931 billion registering a variance of Kshs 28.6 Million. This amount was not transferred from our allocation by the Parent Ministry due to the revision of the budget.

The Authority in addition received a recurrent grant of Kshs 2.102 billion for the payment of arrears to sugar farmers. An additional amount of Kshs 100 million was received being Kshs 50 million for the revitalisation of the cotton industry and an amount of Kshs 50 million for international coffee organisation conference which was held by the Authority in the financial year.

### **2. Other Income**

Other income registered a negative variance of Kshs. 548 million, this is due the decrease in investment income.

### **3. Personnel costs.**

The Authority had budgeted to spend Kshs. 1.034 billion on staff salaries and wages in year but the actual expenditure was Kshs. 988.23 million, registering a positive variance of Kshs 32.58 million. The positive variance arose from non-payment of the anticipated severance pay after job evaluation and harmonization process.

### **4. Board Expense**

The Authority had budgeted to spend Kshs. 30.34 million, however for the FY 2018-2019, the Authority did not have a board in place so no single amount was spent on this vote.

### **5. Operating Expenses**

The Authority had budgeted to spend Kshs. 1.27 billion, but the Authority spent Kshs. 1.21 billion resulting to a positive variance of Kshs. 57.6 million due to some of the programmes that did not take off.

**6. Depreciation and Amortisation**

The Authority had budgeted to spend Kshs. 141.386 million on the depreciation of assets in year but the actual depreciation was Kshs 239.11 Million, registering a negative variance of Kshs 98 million. This was occasioned by revaluation of assets in the financial year 2017/2018.

## **XVI. NOTES TO THE FINANCIAL STATEMENTS**

### **1. GENERAL INFORMATION**

The Agriculture and Food Authority is established by and derives its authority and accountability from Agriculture and Food Authority and Crops Act. AFA is wholly owned by the Government of Kenya and is domiciled in Kenya. The Authority's principal activity is to regulate all scheduled crops as provided in the Crops Act

### **2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION**

The Agriculture and Food Authority's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Agriculture And Food Authority and all values are rounded to the nearest thousand (Kshs. '000'). The accounting policies have been applied to all transactions in the year under review.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the indirect method. The financial statements are prepared on accrual basis.

### **3. ADOPTION OF NEW AND REVISED STANDARDS**

Adoption of new and revised standards and interpretations in IPSASs 33-38. According to IPSASs 33-38, a first-time adopter shall apply these Standards if its first IPSAS financial statements are for a period beginning on or after January 1, 2017. However, the Authority adopted IPSAS Accrual in August 2014 and presented its first IPSAS Accrual Financial Statements in June 2015.

### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **a) Revenue recognition**

#### **Revenue from non-exchange transactions – IPSAS 23**

##### **Fees, taxes and fines**

The Agriculture and Food Authority recognizes revenues from fees, licences, levies and cess when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the Agriculture and Food Authority and the fair value of the asset can be measured reliably.

##### **Transfers from other government entities**

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the Agriculture and Food Authority and can be measured reliably.

**i) Revenue from exchange transactions – IPSAS 9**

**Rendering of services**

The Agriculture and Food Authority recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

**Interest income**

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

**Rental income**

This is the income arising from investment properties on a rental.

**b) Budget information – IPSAS 24**

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the Agriculture and Food Authority. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis or timing differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

**c) Taxes – IAS 12**

Agriculture and Food Authority is a State Corporation created from the merger of defunct agricultural state corporations that were exempted from taxation in accordance with 1<sup>st</sup> schedule of the Income Tax Act Cap 470 (Revised 2014). According to Section 13 & 14 of the Income Tax Act 2014, The Tea Board of Kenya, The Pyrethrum Board of Kenya, The Sisal Board of Kenya, The Horticultural Crops Development Authority and The Cotton Board of Kenya were exempted from income tax. The Authority is funded from the consolidated fund and by way of government grants and does not have other significant sources of income. Consequently, the Authority is only registered for PAYE, VAT and Income taxes.

**d) Investment property – IPSAS 16**

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property.

Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment properties are measured using the cost model and are depreciated over a 30-year period.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition.

Transfers are made to or from investment property only when there is a change in use.

**e) Property, plant and equipment – IPSAS 17**

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the Agriculture and Food Authority recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

The Authority applied the Straight Line Method for depreciating all fixed assets as follows:-

<b>Asset</b>	<b>Depreciation Rate</b>	<b>Useful Life</b>
Land		Leasehold period
Buildings	2.50%	40yrs
Plant & Equipment	12.50%	8yrs
Motor Vehicles	25.00%	4yrs
Computers	33.30%	3yrs
Office & Communication Equipment	12.50%	8yrs
Furniture, Fixtures & Fittings	12.50%	8yrs

**f) Leases – IPSAS 13**

Leases are broadly categorised into Finance leases and Operating Leases. Finance Lease are leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Entity. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. However, the Authority had no assets categorized as finance lease as at the date of reporting.

An operating lease is a lease other than a finance lease. Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Entity. As at the time of the reporting the Authority had entered into various lease agreements with several tenants occupying its premises and vice-versa with landlords it has leased properties from. Where the Authority has leased out its premises, assets are recognized and presented in the financial position according to the nature of the assets and lease income recognized as revenue on a straight-line basis over the lease term. Similarly, costs including depreciation, incurred in earning lease revenue are recognised as an expense. This is in accordance with IPSAS 13: Leases, which states that operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

**g) Intangible assets – IPSAS 31**

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

<b>Asset</b>	<b>Depreciation Rate</b>	<b>Useful Life</b>
Intangible Assets	20%	5yrs

## **h) Financial Instruments**

In accordance with paragraph 38 of IPSAS 30: Financial Instruments - Disclosures, an entity shall disclose information that enables users of its financial statements to evaluate the nature and the extent of risks arising from the financial instruments to which the entity is exposed to at the end of the reporting period. These risks typically include, but not limited to credit risks, liquidity risks and market risks. These financial instruments includes information on financial assets at fair value through surplus and or deficit, held-to-maturity investments, loans and receivables, available-for-sale financial assets, financial liabilities at fair value through surplus and or deficit and financial liabilities measured at amortized cost.

As at the reporting date, the authority did not have any financial instruments that gives rise to both. Financial asset for one entity and a financial liability for another entity as defined in IPSAS 28: Financial Instruments –Presentation. Consequently there were no qualitative and quantitative disclosures on risks arising from financial instruments by the Authority as at the reporting date.

### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit

### **Financial liabilities**

#### **Initial recognition and measurement**

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Agriculture and Food Authority determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

#### **(i) Inventories – IPSAS 12**

According to IPSAS 12; Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations. However, the Authority as service-based public institution does not carry significant amount of inventory as it is procured in small quantities and therefore expensed when it is procured.

#### **(j) Provisions, Contingent Liabilities and Contingent Assets - IPSAS 19**

##### **Provisions**

Provisions are recognised when AFA has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

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Where the Authority expects some or all of the provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

**Contingent liabilities -**

The Agriculture and Food Authority shall not recognize but has disclosed contingent liabilities in the financial statements for 2016-17 in accordance with IPSAS 19: Provisions, contingent liabilities and contingent assets. These contingent liabilities arise from the following ongoing court cases:-

- Case HCCC NO.152 of 2004 for Rehabilitation of Kahawa House
- Court case no. HCCC NO. 1285 of 2001 Cotton Board of Kenya =vs= John Mututho
- Court case no. HCCCNO. 1205 of 2015 Horticultural Crops Development Authority =Vs= Sakirr Properties Ltd
- Court case no. HCCCNO. 108 of 2010 Coffee Board of Kenya =Vs= Sotua Development Company Ltd
- Rodi Orege and Co. Advocates legal fee

**Contingent Assets**

The Agriculture and Food Authority shall not recognize but has disclosed contingent assets in the financial statements for year in accordance with IPSAS 19: Provisions, contingent liabilities and contingent assets. The contingent asset relates to the parcel of land the defunct Coconut Development Authority applied for within Kenya the Agricultural Research Institute (KARI) through the Ministry of Agriculture for the purpose of constructing Headquarters at Mtwapa. The Authority is yet to receive the ownership documents and therefore treats it as a contingent asset.

**(k) Accounting Policies, Changes In Accounting Estimates and Errors - IPSAS 3**

The Agriculture and Food Authority shall apply IPSAS 3 in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors. The Authority shall correct (where practicable) material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery.

In the financial statements for 2017-18, revalued fixed assets were understated with a net book value of Kshs. 23.8M. Consequently, the error was corrected as shown below and comparative figures for the financial statements FY 2017-18 restated:-

<b><u>COST</u></b>	
Reported value of Motor Vehicles	: 278,474,398.87
Restated cost value of Motor Vehicles	: <u>310,704,397.76</u>
<b>Difference</b>	<b><u>32,229,998.89</u></b>
<b><u>DEPRECIATION</u></b>	
Reported Depreciation	: 69,618,599.72
Restated Depreciation	: <u>77,958,452.44</u>
Difference	<u><b>8,339,852.72</b></u>
<b>Increase in Net Book Value</b>	<b>23,890,146.17</b>

### **l) Nature and purpose of reserves – IPSAS 1**

In accordance with IPSAS 1: Presentation of financial Statements, where an entity has no share capital, it shall disclose net assets/ equity, either on the face of the statement of financial position or in the notes, showing separately: contributed capital, accumulated surpluses, reserves (including a description of the nature and purpose of each reserve within net assets/ equity; and minority interests. The Authority maintains the following reserves for the purposes stated:-

1. **Capital Reserve** – This represents the seed money/capital advanced or granted by the government for establishment of the defunct State Corporations forming the Authority. It is primary reserve that finances major assets of the Authority.
2. **Revaluation Reserve** – This is the reserve created from revaluation of fixed assets i.e. the difference between the carrying amount and the fair value of fixed assets in accordance with IPSAS 17: Plant, Property and Equipment. This is necessary for the proper accounting of fixed asset values, under fair value accounting and therefore has been reported separately in financial statements.
3. **General Reserve** – This is created from accumulated surplus of the Authority and is used to strengthen the liquid resources of the Authority.
4. **Grant Reserve** – This relates to grants received from the government for development of the sugar industry

### **(l) Employee benefits – IPSAS 25**

#### **Retirement benefit plans**

The Agriculture and Food Authority provides retirement benefits for its employees. Defined contribution plans are post-employment benefit plans under which an Agriculture And Food Authority pays fixed contributions into a separate Agriculture And Food Authority (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

### **(m) Foreign currency transactions – IPSAS 4**

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

**(n) Borrowing costs – IPSAS 5**

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment. Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

**o) Related parties – IPSAS 20**

The Agriculture and Food Authority regards a related party as a person with the ability to exert control individually or jointly, or to exercise significant influence over the Agriculture and Food Authority, or vice versa. Members of key management are regarded as related parties and comprise the Director General, Heads of Directorates and senior managers.

Paragraph 25 of IPSAS 20: Related Party Disclosures, an entity shall disclose related party relationships where control exists, irrespective of whether there has been transactions between related parties. Paragraph 27 requires that ‘in respect of transactions between related parties, other than transactions that would occur within a normal supplier or client/ recipient relationship on terms and conditions no more or less favourable than those which it is reasonable to expect the entity would have adopted if dealing with that individual or entity at arm’s length in the same circumstances, the reporting entity shall disclose; the nature of related party relationships, types of transactions and the element of the transactions.

AFA as a State Corporation under the Ministry of Agriculture, Livestock and Fisheries or the Ministry of Agriculture operates under the guidance and Direction of the Ministry. The Interim Board existing at the reporting date was appointed by and reports to the Cabinet Secretary, Ministry of Agriculture, Livestock and Fisheries. Furthermore, the Authority received government grants amounting to Kshs. 1.6 billion through the ministry. However, even though some of the major decisions regarding operations of the authority are subject to the approval by the ministry, the Authority operates with a high degree of autonomy.

Furthermore, the Authority owes the government Kshs. 672.8 million loan that was issued by the Government of Kenya to KPCU through the defunct Coffee Board of Kenya. In the books of the Authority, the loan is carried as an asset to KPCU and as a liability to GoK. Since the amount was disbursed by KPCU to farmers, loan recoveries were to be remitted to KPC and then submit to Coffee Board of Kenya for onward repayment of the GoK loan. The board has made several claims to KPCU but apparently no recoveries were made from farmer it’s there improbable the money will ever be recovered in light of the government waiver on coffee loans. Consequently, the defunct CBK had written to treasury for the amount to be written off so that it can be expunged from the books of the accounts.

**p) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the various commercial banks at the end of the financial year. For the

purposes of these financial statements, cash and cash equivalents also include short term cash Imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

**q) Comparative figures**

The comparative balances reflected in the financial statements are for a period ended 30th June 2018 while the financial year ended 30<sup>th</sup> June 2019.

**r) Subsequent Events – IPSAS 14**

These are those events, both favourable and unfavourable, that occur between the reporting date and the date the financial statements are authorized for issue. These events could be those that provide evidence of conditions that existed at the reporting date and those indicative of conditions that arose after the reporting date.

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2018.

**5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY**

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

Following the merger of all scheduled crops by the enactment of AFA Act 2013 and crops Act 2013, it was apparent that various former institutions applied different methods and rates of depreciating of their assets.

**Estimates and assumptions**

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

**Useful lives and residual values**

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

- The condition of the asset based on the assessment of experts employed by the Agriculture and Food Authority

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- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

**Provisions**

Provisions are recognized when the Agriculture and Food Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Agriculture and Food Authority expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

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**6. Government Grants**

	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Shs 000</b>	<b>Shs 000</b>
Government Grants-Recurrent	1,902,636	2,423,501
Government Grants-Capital	100,000	-
Grant for Sugar Farmers	2,102,121	-
<b>Total</b>	<b>4,104,757</b>	<b>2,423,501</b>

**Transfers from the Government (Grants)**

The amount was received from the Ministry of Agriculture, Livestock, Fisheries and Irrigation as follows;

<b>AGRICULTURE AND FOOD AUTHORITY</b>			
<b>FUNDS RECEIVED FROM PARENT MINISTRY FOR THE YEAR 2018-2019</b>			
<b>TRANSFER DATE</b>	<b>DOCUMENT NUMBER</b>	<b>TYPE OF TRANSFER</b>	<b>AMOUNT KSHS 000</b>
17/08/2018	BRCTP0318	Recurrent Grant from Government: EFT Invoices	160,938
30/08/2018	BRCTP0322	Recurrent Grant from Government: EFT Invoices	160,938
28/09/2018	BRCTP0331	Recurrent Grant from Government: EFT Invoices	160,938
30/10/2018	BRCTP0334	Recurrent Grant from Government: EFT Invoices	160,938
30/11/2018	BRCTP0328	Recurrent Grant from Government: EFT Invoices	160,938
08/01/2019	BRCTP0344	Recurrent Grant from Government: EFT Invoices	131,969
01/02/2019	BRCTP0354	Recurrent Grant from Government: EFT Invoices	131,969
01/03/2019	BRCTP0361	Recurrent Grant from Government: EFT Invoices	166,732
01/04/2019	BRCTP0367	Recurrent Grant from Government: EFT Invoices	166,818
13/05/2019	BRCTP0373	Recurrent Grant from Government: EFT Invoices	166,818
06/06/2019	BRCTP0380	Recurrent Grant from Government: EFT Invoices	166,818
27/06/2019	BRCTP0383	Recurrent Grant from Government: EFT Invoices	166,818
		<b>RECURRENT GRANT SUB-TOTAL</b>	<b>1,902,635</b>
08/11/2018	BRCTP0341	Recurrent Grant from Government: EFT Invoices	25,000
08/11/2018	BRCTP0341	Recurrent Grant from Government: EFT Invoices	25,000
01/03/2019	EFT	Recurrent Grant from Government: EFT Invoices	1,966,621
01/04/2019	BRCTP0368	Recurrent Grant from Government: EFT Invoices	50,000
15/06/2019	EFT	Recurrent Grant from Government: EFT Invoices	135,500
		<b>OTHER RECURREN GRANT</b>	<b>2,202,121</b>

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**7. Grants from Development Partners**

	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Shs 000</b>	<b>Shs 000</b>
Recurrent Grant- Development Partners	-	3,610
<b>Total</b>	<b>-</b>	<b>3,610</b>

**8. Levies, Fees, Licenses, Permits and Cess**

	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Shs 000</b>	<b>Shs 000</b>
Levies	7,410	9,070
Licenses and Permits	78,382	79,691
Fees	-	-
Cess	104,084	101,551
Others	6,091	17,602
<b>Total</b>	<b>195,966</b>	<b>207,914</b>

**9. Rental Revenue from Facilities and Equipment**

	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Shs 000</b>	<b>Shs 000</b>
Rental Income from Buildings	123,921	109,244
Hire of Facility/equipment	28,356	23,231
<b>Total Rentals</b>	<b>152,277</b>	<b>132,475</b>

**10. Finance Income - External Investments**

	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Shs 000</b>	<b>Shs 000</b>
Fixed deposits	144,556	184,121
<b>Total Finance Income – External Investments</b>	<b>144,556</b>	<b>184,121</b>

**11. Finance Income - Outstanding Receivables**

	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Shs 000</b>	<b>Shs 000</b>
Accrued Interest	18,773	24,097
<b>Total Receivables Finance Income – Outstanding</b>	<b>18,773</b>	<b>24,097</b>

**12. Other Income**

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	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Shs 000</b>	<b>Shs 000</b>
Others	1,199	167
<b>Total Other Income</b>	<b>1,199</b>	<b>167</b>

<b>13. Employee Costs</b>	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Shs 000</b>	<b>Shs 000</b>
Employee related costs - salaries and wages	825,700	839,789
Employee related costs - NSSF & contributions to pensions	1,171	1,236
Medical expenses	94,306	95,592
Staff Gratuities	55,569	69,894
Others	25,229	32,794
<b>Total</b>	<b>1,001,976</b>	<b>1,039,305</b>

<b>14. Board Expenses</b>	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Shs 000</b>	<b>Shs 000</b>
Sitting Allowance	-	4341
Accommodation and Subsistence	-	2,276
Directors Travel	-	1540
Chairman's Honorarium	-	659
Others	-	952
<b>Total Board Expenses</b>	<b>-</b>	<b>9,767</b>

<b>15. Disbursements to Sugar Farmers</b>	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Shs 000</b>	<b>Shs 000</b>
Mumias Farmers	754,441	-
Sony Farmers	397,638	-
Muhoroni Farmers	374,350	-
Nzoia Farmers	425,845	-
Chemilil Farmers	133,156	-
<b>Total Disbursements to Sugar Farmers</b>	<b>2,085,430</b>	<b>-</b>

<b>16. Depreciation and Amortization Expense</b>	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Shs 000</b>	<b>Shs 000</b>
Property, plant and equipment	227,082	211,014
Intangible assets	12,337	13,294
<b>Total Depreciation and Amortization</b>	<b>239,419</b>	<b>224,308</b>

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	2018/2019	2017/2018
<b>17. Repairs and Maintenance</b>	<b>Shs 000</b>	<b>Shs 000</b>
Buildings	10,932	6,207
Plant and Equipment	243,932	245,140
Automobiles	22,852	17,838
Computer and Electronic Equipment	1,496	6,641
Office and Communication Equipment	574	977
Furniture and Fittings	1,713	788
<b>Total Repairs and Maintenance</b>	<b>281,499</b>	<b>277,591</b>
<b>18. Regulation and Compliance</b>	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Shs 000</b>	<b>Shs 000</b>
Registration & Licensing	24,144	12,268
Inspections & Surveillance	34,532	40,015
Development And Review Of Standards	20,470	16,813
Quality Analysis	15,289	4,520
Stakeholders For a	36,607	16,405
International Fora/Meetings	11,845	10,480
Consultancies	3,207	1,712
<b>Total</b>	<b>146,095</b>	<b>102,214</b>
<b>19. Technical and advisory</b>	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Shs 000</b>	<b>Shs 000</b>
Collaborations and Coordination	34,947	29,759
Stakeholders Capacity Building	108,121	58,643
Environmental Sustainability	8,332	5,935
International Fora/Meetings	10,091	6,521
Seeds Supply & Management	8,378	5,039
Crop Census	22,575	27,992
Consultancies	-	4,693
Cotton Revitalization	47,522	-
Crop Support	866	-
<b>Total</b>	<b>240,831</b>	<b>138,582</b>
<b>20. Market Research and Development</b>	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Shs 000</b>	<b>Shs 000</b>
Generic Promotion	58,993	146,962
Market Research & Development	29,545	17,807
Subscriptions to Associations	10,043	13,720
International Conference	49,063	37,838
Value Addition Promotion	32,256	24,264
Market Registration	5,645	5,458
International Coffee Organisation	50,897	-
<b>Total</b>	<b>236,443</b>	<b>246,049</b>

**21. Operating / Administrative expenses**

	2018/2019	2017/2018
	Shs 000	Shs 000
Printing and Stationery	11,511	14,645
Communication Telephone and Postage	22,935	23,326
Vehicle Running Expenses	32,532	28,986
Insurance Expenses	13,904	18,996
Local Travel Expenses	118,970	128,754
International Travel	8,121	7,200
Security	35,979	47,647
Electricity and Water	26,951	31,007
Rent and Rates	24,158	24,646
Computer Accessories	11,066	9,950
Record Management	2,407	2,671
Cleaning, Garbage & Sanitary	17,716	14,769
Management Fees/Refunds	4,150	2,516
Newspapers, Periodicals, Journals And Subscriptions	3,385	3,479
Advertising and Publicity	2,470	2,717
Bank Charges	3,946	4,571
Staff Welfare	33,166	34,277
Trainings, Seminar, Retreats, Workshops & Conferences	65,240	60,077
Consultancies	952	12,633
Subscriptions to Professional Bodies	1,243	1,214
Staff Uniforms	77	2,259
Team Building	2,064	2,337
Audit Fees	6,960	7,378
Internal Audit/ ISO Audits	36,572	24,418
Legal Services	65,991	53,953
Public Relations And Corporate Branding	5,434	7,163
Shows, Exhibitions & Trade Fairs	27,101	37,439
Corporate Social Responsibility	2,421	1,997
General Expenses	7,336	10,748
<b>Total General Expenses</b>	<b>594,755</b>	<b>621,773</b>

**22. Finance Costs**

	2018/2019	2017/2018
	Shs 000	Shs 000
Interest on Borrowings	-	13,456
<b>Total Finance Costs</b>	<b>-</b>	<b>13,456</b>

**23. Gain/ Losses on Foreign Exchange Transactions**

	2018/2019	2017/2018
	Shs 000	Shs 000
Loss on Foreign Exchange Transactions	705	(1,266)
	<b>705</b>	<b>(1,266)</b>

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**24. Cash and Cash Equivalents**

	2018/2019	2017/2018
	Shs 000	Shs 000
Bank	1,365,308	1,185,797
Cash-on-Hand and in Transit	12	45
Short-Term Deposits	1,631,929	1,927,980
Collateral Deposit	361,419	197,728
<b>Total Cash and Cash Equivalents</b>	<b>3,358,668</b>	<b>3,311,549</b>

**25. Receivables from Exchange Transactions**

	2018/2019	2017/2018
	Shs 000	Shs 000
<b>Current Receivables</b>		
Rent Debtors	31,161	32,738
Trade Debtors	3,457,964	3,308,084
Prepayments	2,024	33
<b>Total Current Receivables</b>	<b>3,491,148</b>	<b>3,340,855</b>

**26. Receivables from Non-Exchange Contracts**

<b>Current Receivables</b>	2018/2019	2017/2018
	Shs 000	Shs 000
Staff Debtors	6,440	10,278
Staff Advance	2,205	2,711
Other Receivable	4,294	6,615
<b>Total Current Receivables</b>	<b>12,939</b>	<b>19,604</b>

**27. Trade and Other Payables from Exchange Transactions**

	2018/2019	2017/2018
	Shs 000	Shs 000
Trade Payables	676,727	711,445
Payments Received in Advance	11,701	3,000
Third Party Payable	7,649	7,655
Other Payables	2,785	1,961
Overdrawn Accounts	-	23
<b>Total Trade and other Payables</b>	<b>698,861</b>	<b>724,084</b>

**28. Refundable Deposits from Customers**

	2018/2019	2017/2018
	Shs 000	Shs 000
Consumer Deposits	3,867	3,867
<b>Total Deposits</b>	<b>3,867</b>	<b>3,867</b>

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**29. Current Provisions**

	<b>Contingent Liabilities</b>	<b>Other Provisions</b>	<b>Performance Bonuses</b>	<b>Total</b>
	<b>Shs 000</b>	<b>Shs 000</b>	<b>Shs 000</b>	<b>Shs 000</b>
Balance at the beginning of the year		97,004	-	97,004
Additional provisions raised		21,756	-	21,756
Provision utilized		(54,202)	-	(54,202)
Transferred from non-current provisions	-	-	-	-
<b>Balance as at 30 June 2019</b>	<b>-</b>	<b>64,559</b>	<b>-</b>	<b>64,559</b>

**30. Pensions and other Post-Employment Benefit Plans**

	<b>Defined Benefit Plan</b>	<b>Defined Contribution Plan</b>	<b>Total</b>
	<b>Shs 000</b>	<b>Shs 000</b>	<b>Shs 000</b>
Current benefit obligation	-	-	-
Non-current benefit obligation	609,483	-	609,483
<b>Total as at 30th June 2019</b>	<b>609,483</b>	<b>-</b>	<b>609,483</b>
<b>Total as at 30th June 2018</b>	<b>317,483</b>	<b>-</b>	<b>317,483</b>

**31. Tax Obligations**

	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Shs 000</b>	<b>Shs 000</b>
VAT	520	512
PAYE	-	-
Withholding	791	-
<b>Total deferred income</b>	<b>1,310</b>	<b>512</b>

**32. Non- Current provisions**

	<b>Contingent Liabilities</b>	<b>Other Provisions</b>	<b>Performance Bonuses</b>	<b>Total</b>
	<b>Shs 000</b>	<b>Shs 000</b>	<b>Shs 000</b>	<b>Shs 000</b>
Balance at the beginning of the year	-	326,820	-	326,820
Additional provisions raised	-	-	-	-
Provision utilized	-	-	-	-
Transferred from non-current provisions	-	-	-	-
<b>Balance as at 30 June 2019</b>	<b>-</b>	<b>326,820</b>	<b>-</b>	<b>326,820</b>
Balance as at 30 June 2018	<b>-</b>	<b>326,820</b>	<b>-</b>	<b>326,820</b>

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**33. Investments**

	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Shs 000</b>	<b>Shs 000</b>
Investments	389	389
<b>Total Investments</b>	<b>389</b>	<b>389</b>

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**34. Property, Plant and Equipment**

	Land	Buildings	Plant and Equipment	Automobiles	Computer and Electronic Equipment	Office and Communication Equipment	Furniture and Fittings	WIP	TOTAL
Cost	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000
As at 1st July 2017	572,211	2,905,403	468,425	351,528	130,943	171,809	138,093	415,107	5,153,519
Additions	-	-	16,330	90,107	46,558	1,096	18,138	29,297	201,526
Transfers/adjustments	-	444,404	-	32,230	- 20,671	20,671	-	- 444,404	32,230
Revaluation	6,806,573	- 221,607	-	- 163,160	-	-	-	-	6,421,805
<b>At 30 June 2018</b>	<b>7,378,784</b>	<b>3,128,200</b>	<b>484,755</b>	<b>310,705</b>	<b>156,830</b>	<b>193,576</b>	<b>156,231</b>	<b>-</b>	<b>11,809,080</b>
Additions	-	-	-	14,738	16,191	3,936	3,424	8,386	46,675
Transfers/adjustments	-	8,386	-	-	-	-	-	- 8,386	-
<b>At 31 June 2019</b>	<b>7,378,784</b>	<b>3,136,586</b>	<b>484,755</b>	<b>325,443</b>	<b>173,021</b>	<b>197,511</b>	<b>159,655</b>	<b>-</b>	<b>11,855,756</b>
<b>Depreciation and impairment</b>									
As at 1st July 2017	12,583	463,534	462,934	266,772	108,644	67,482	98,964	-	1,480,913
Elimination on revaluation	- 12,583	- 463,534	-	- 266,773	-	-	-	-	- 742,890
Depreciation	9,100	78,205	3,160	69,619	23,203	18,784	8,944	-	211,014
Transfers/adjustments	-	-	-	8,340	-	-	-	-	8,340
<b>At 31 June 2018</b>	<b>9,100</b>	<b>78,205</b>	<b>466,094</b>	<b>77,958</b>	<b>131,847</b>	<b>86,266</b>	<b>107,907</b>	<b>-</b>	<b>957,377</b>
Depreciation	9,100	78,575	3,109	85,662	21,110	20,235	9,291	-	227,082
Transfer/adjustment	-	-	-	-	-	-	-	-	-
<b>At 31 June 2019</b>	<b>18,200</b>	<b>156,780</b>	<b>469,203</b>	<b>163,620</b>	<b>152,957</b>	<b>106,501</b>	<b>117,198</b>	<b>-</b>	<b>1,184,459</b>
<b>Net book values</b>									
<b>At 31 June 2019</b>	<b>7,360,584</b>	<b>2,979,806</b>	<b>15,552</b>	<b>161,823</b>	<b>20,064</b>	<b>91,011</b>	<b>42,457</b>	<b>-</b>	<b>10,671,296</b>
At 30 June 2018	7,369,684	3,049,995	18,661	232,747	24,983	107,310	48,324	-	10,851,702

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**35. Intangible Assets**

<b>35. INTANGIBLE ASSETS</b>	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
<b>COST</b>		
At July 1	120,083	107,390
New Software	200	12,693
<b>At June 30</b>	<b><u>120,283</u></b>	<b><u>120,083</u></b>
<b>AMORTISATION</b>		
At July 1,	78,121	64,828
Transfer/adjustments		
Charge for the year	12,337	13,294
Disposals	-	-
Impairment loss	-	-
Transfer/adjustments	-	-
<b>At June 30</b>	<b><u>90,454</u></b>	<b><u>78,121</u></b>
<b>NET BOOK VALUE</b>		
<b>At June 30</b>	<b><u>29,829.16</u></b>	<b><u>41,962</u></b>

### **36. FINANCIAL RISK MANAGEMENT**

AFA overall risk management programme focuses on unpredictability of changes in the operational environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The Authority does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The Authority's financial risk management objectives and policies are detailed below:

#### **(i) Credit risk**

The Authority does not have exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due.

#### **(ii) Liquidity risk management**

The Authority depend on government grants to finance most of its operations. This may expose the Authority to liquidity risk due to non-receipt or delays in receipt of government grant. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

#### **(iii) Market risk**

The Authority has limited exposure to market risks. Therefore, AFA has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

**APPENDIX I: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**


The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

<b>Reference No. on the external audit Report</b>	<b>Issue / Observations from Auditor</b>	<b>Management comments</b>	<b>Focal Point person to resolve the issue (Name and designation)</b>	<b>Status: (Resolved / Not Resolved)</b>	<b>Timeframe: (Put a date when you expect the issue to be resolved)</b>
2	Case HCCC NO.152 of 2004 for Rehabilitation of Kahawa House	The refurbishment done on Kahawa House in 1998/99 was due to the bomb blast that knocked the Nairobi City in 1998 necessitating repairs to the windows and window fixtures and frames in the building. There was a need to refurbish the building for use which was approved by the Board in its sitting of 18th August 2000. The committee had noted that the building was in a pathetic state and needed urgent rehabilitation.	Interim Director General	Not resolved	N/A
2.4	Court case no. HCCC NO. 1285 of 2001 Cotton Board of Kenya vs= John Mututho	According to the judgement of the Court of Appeal dated 25th September 2015, the purchaser (Mr. John Mututho) upon the hammer paid Kshs. 8,375,000= being 25% of the bid and promised to pay the balance within six months of the agreement of which he did not honour within the timeline. Consequently, the case was ruled in favour of the Authority and the Authority is pursuing the title documents for the property.	Interim Director General	Not resolved	N/A

**Guidance Notes:**

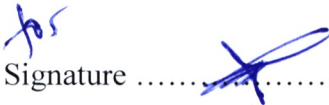
- (i) Use the same reference numbers as contained in the external audit report;
- (ii) Obtain the “Issue/Observation” and “management comments”, required above, from final external audit report that is signed by Management;
- (iii) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your Agriculture And Food Authority responsible for implementation of each issue;
- (iv) Indicate the status of “Resolved” or “Not Resolved” by the date of submitting this report to National Treasury.

**Director General**

Signature .....  .....

Date..... 30/6/2019 .....

**Head of Finance**

Signature .....  .....

Date..... 30/6/2019 .....