

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT
THE NATIONAL ASSEMBLY
PAPERS LAID

DATE: 14 JUL 2019 DAY: Thursday

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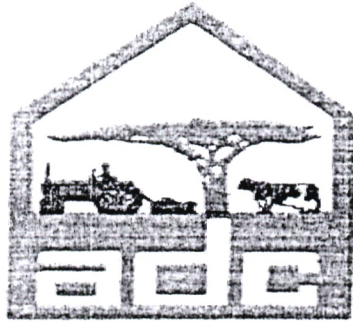
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THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
AGRICULTURAL DEVELOPMENT
CORPORATION**

**FOR THE YEAR
ENDED 30 JUNE 2018**



Agricultural Development Corporation

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2018**

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

AGRICULTURAL DEVELOPMENT CORPORATION

Abbreviations, Key and Definitions

1. **IPSAS** - International Public Sector Accounting Standards
2. **ADC** - Agricultural Development Corporation.
3. **AOG** - Office of the Auditor General.
4. **NDMA** - National Drought Management Authority.
5. **MOALF** - Ministry of Agriculture Livestock and Fisheries.
6. **GOK** - Government of Kenya
7. **ISO** - International standards Organization
8. **QMS** - Quality Management standards

Table of Content	Page
I. KEY CORPORATION INFORMATION AND MANAGEMENT.....	iii
II. BOARD OF DIRECTORS	v
III. MANAGEMENT TEAM	viii
IV. REPORT OF THE MANAGING DIRECTOR	x
V. CORPORATE GOVERNANCE STATEMENT.....	xii
VI. CORPORATE SOCIAL RESPONSIBILITY STATEMENT.....	xiii
VII. REPORT OF THE DIRECTORS	xiv
VIII. STATEMENT OF DIRECTORS' RESPONSIBILITIES	xv
IX. REPORT OF THE INDEPENDENT AUDITORS	xvi
X. CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE.....	1
XI. CORPORATION STATEMENT OF FINANCIAL PERFORMANCE	2
XII. CONSOLIDATED STATEMENT OF FINANCIAL POSITION	3
XIII. CORPORATION STATEMENT OF FINANCIAL STATEMENT POSITION.....	4
XIV. LANDS LTD STATEMENT OF FINANCIAL POSITION	5
XV. STATEMENT OF FINANCIAL POSITION	6
XVI. STATEMENT OF CASHFLOWS.....	7
XVII. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL	8
XVIII. NOTES TO THE FINANCIAL STATEMENTS	9
XIX. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS	31

I. KEY CORPORATION INFORMATION AND MANAGEMENT

(a) Background information

The Agricultural Development Corporation is a state Corporation, established in 1965 through an Act of Parliament Cap 346; to facilitate the land transfer programme from European settlers to locals after independence. However, after successful completion of the land transfer programme, the objectives of the Corporation were revised through the Act of Parliament Cap 444 of 1986 to include promotion and execution of agricultural schemes among other Agricultural services.

(b) Principal Activities

The Corporation's principal activity is development of agriculture in Kenya including:-

- ~ Provision of quality seeds to the Kenyan farmers.
- ~ Custodian of national livestock studs.
- ~ Playing a major role in the transfer of technology from research institutions to the Kenyan Farmer.
- ~ Playing a major role in support of industries processing agricultural goods being a major Producer of agricultural produce.

(c) Key Management

The *Agricultural development corporation's* day-to-day management is under the following key organs:

- Board of Directors.
- Managing Director.
- Corporation Secretary
- Head of Finance.
- Head of Corporate Planning and Administration.
- Head of Finance.
- Head of Technical.
- Head of Business Development.
- Head of Internal Audit.

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2018 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Managing Director	Mr. Richard Ayabei
2.	Corporation Secretary	Mr. Anthony Ademba
3.	Financial Controller	Mr. Patrick Moturi.
4.	Head of Planning	Dr. Winnie Macharia(Phd)
5.	Head of Technical	Mr. Mohmed Bulle
6.	Head of Business Development	Mr. Maxwell Mugonyi
7.	Head of Internal Audit	Mr. Jonathan Keitany

KEY CORPORATION INFORMATION AND MANAGEMENT (Continued)

(e) Fiduciary Oversight Arrangements

1. The Board operates under three committees as follows;

Audit Committee activities include;

- Charged with the responsibility of safeguarding of the corporation assets
- Ensuring adequate financial systems and controls are in place
- Ensuring financial statements and reports are in compliance with legal requirements and meet the relevant accounting standards.
- Reviewing the internal Audit reports and management action thereon.

Finance, Staff and General Purpose Committee

- Oversee sourcing and utilization of Corporation's Funds
- In charge of staff Remuneration, recruitments of senior managers, incentives and filling of vacancies.
- Reviewing the monthly management accounts
- Review of the corporation budgets and financial statements.

Project Committee activities

- Ensuring Projects undertaken by the corporation are viable and properly managed.

(f) Headquarters & Registered Office

Development House 10th Floor
Moi Avenue
Nairobi, KENYA

(g) Corporation Contacts

P.O. Box 47101-00100
Telephone: (254) -20-2250695/185
E-mail: info@adc.co.ke
Website: www.adc.co.ke

(h) Corporation Bankers

1. National Bank of Kenya
Harambee Avenue
P.O. Box 41862-00100
Nairobi, Kenya

3. Consolidated Bank of Kenya
Harambee Avenue Branch
P.O. Box 34823 -00100
Nairobi, Kenya.

2. Kenya Commercial Bank
P.O. Box 48400-00100
Nairobi, Kenya.

(i) Independent Auditors

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

j) Principal Legal Adviser

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

II. BOARD OF DIRECTORS



Hon. Benjamin Cheboi EBS

Chairman

Appointed 6th June 2018

Hon. Cheboi holds a master's degree in Financing Higher Education from University of Manchester United Kingdom and a Bachelor of Science Degree. Hon. Cheboi has a wealth of experience in public service having served as the first Governor of Baringo County. He rose through the ranks at the Higher Education Loans Board serving as the Deputy Chief Executive Officer, before being promoted to the position of the CEO of the same institution. In addition he was the first president of the Association of African Higher Education Agencies(AAHEFA) and a Commissioner, commission for Higher Education and Director at the Kenya Institute of Directors.

Mr. Richard Aiyabei

Managing Director

Appointed 17th April 2015

Mr. Richard Aiyabei was appointed Managing Director on 22nd December 2015 after rising through the ranks from Assistant Complex Manager, complex manager, Senior Complex manager, Technical Officer, Regional Manager, Technical Manager Strategy implementation and planning and Head of Technical Division.

He holds Master of Science degree, Agronomy from University of Eldoret, Bachelor of Science in Agriculture -Moi University and Diploma in Farm Management from Egerton University.

Mr. Aiyabei has over 27 years' experience in different capacities which include Technical, Research, Financial management and socio -Economic fields. He has attended Corporate Governance course, Finance for non-finance managers, Risk management, and Anti-Fraud/corruption, performance management and Mwongozo induction course workshops accordingly.

He is a board member of the following institutions, Agro-Chemical and food Company, Kenya Seed Company, Chemelil Sugar Company, Kenya Ploughing Organization, World Ploughing Committee.



Hon. Peter Kiptanui Chemuigut

Member

Appointed 6th June 2018

Mr. Chemuigut holds a Bachelor's Degree in Public Administration from Great Lake University and currently finalizing a Masters Degree in Political Science/ Public Administration in Kisii University. He has vast experience in banking among other fields, and has worked as a consultant at the UK's Department for International Development (DFID), the World Bank and Agence Française de Development (AFD) and the Bill and Melinda Gates Foundation. He has also been a lead supervisor at North American Savings Banks (Kansas USA) and Lab Technician at Corn Plant Daniels Midland Company (Minnesota USA).

Hon. John Owuor Kobado

Member

Appointed 6th June 2018

Mr Kobado holds Masters Degree in Business Administration from University of Hull, UK, Bachelor of Science in Project Management (C/T), from Newport University, California. He also holds National Diploma in Business Management and Higher National Diploma in Mechanical Engineering. Hon. John has vast experience in consultancy, Research and Development and Engineering among others. He has also been a Member of National Assembly and a committee member of Agriculture, Fisheries and Co-operatives Committee and a member of Labour and Social Welfare Committee.



BOARD OF DIRECTORS (Continued)

Mrs. Jean Njiru

Member

Appointed 6th June 2018



Mrs. Jean holds Masters of Professional Studies from Cornell University, USA and Masters of Science in Plant Pathology and a Bachelor of Science in Agriculture from the University of Nairobi. She has vast experience in supply chain management, research, leadership among others. She also undertook a professional development program under the Hubert Humphrey Fellowship Program at Cornell University to enhance leadership and management skills.

CPA Elizabeth Mkandoe Shungula

Member

Appointed 6th June 2018



Cpa Elizabeth Shungula Holds an MBA in finance from Kenye Methodist University a bachelor of commerce in Accounting from Daystar University and a certified public accountant. Shungula has versed experience in finance field covering wide areas including cash management, management of public debt, budgeting, monitory and updating external debts and currently working as a senior Investment Officer in Government Investment Public Enterprises at The National Treasury. She has knowledge in banking having worked in Family bank in various departments.

Hon. Roba Sharu Duba

Member

Appointed 6th June 2018



Hon. Duba an MBA in Business Administration from Jomo Kenyatta University and Technology, Bachelor Arts in Sociology , Diploma in Study of Modern Management from College of professional Management –Jersey, Uk. He has versed experience in management of public resources and policy formulation and implementation and administration having served as a member of parliament of Moyale and town clerk and county clerk in various county council. Currently Hon. Duda is the General Secretary and Executive Board Member of COTU(k) where he is in charge of ensuring compliance of provision of all laws guiding the trade union movement.

Mrs . Tabitha Mbungu Maugi

Member

Appointed 6th June 2018



Mrs Tabitha M. Mbungu Holds a MBA (Education) from Kenyatta University, B.ED from Kenyatta University and a diploma in education from Kagumo Teachers College. Mrs Maugi has over 30 years experience in education sector. She is a good administrator having served as a Principal Ndagoni Girls Sec School and Deputy Head Teacher Ikuu Girls Sec School. She has also served a county Executive member in Tharaka Nithi County Government.

BOARD OF DIRECTORS (Continued)



Mr. Martin Ogindo

Member

Appointed 6th June 2018

Hon. Ogindo holds an MBA (Finance) from the University of Nairobi and a Bachelor of commerce (Accounting Option) from the University of Nairobi. He has enormous experience in public finance management having worked as an advisor economic planning, finance, strategy and budgeting in the council of Governors. Before that he served as a Member of Parliament for Rangwe constituency Kenya National Assembly.

Dr. Gladys Kasiva Ngao

Member

Appointed 6th June 2018

Dr Gladys Kasiva Ngao Hold a PhD in Education from the University of Pune, India; MBA in Human recourse management from Sikkim Manipal University, India; MEd (Sociology of Education) from Kenyatta university; B.Ed (Special Needs Education & Literature) & Dilpoma in G & C from Kenyatta Institute of professional counselling in collaboration with KEMU. Dr. G. K Ngao is an academia with other 30 year teaching at various learning institution and Universities. She is a member correctly working as a full time lecture at Kenyetta University. She is a member of many committees which include:- Member of Board of Postgraduate Studies, School of Postgraduate Studies of Kenyatta University, Cohesion and National Values Mainstreaming Committee of Maasai Mara University among others.



Hon. Paul Kibet Chebor

Member

Appointed 6th June2018

Hon. Hassa Osman

Member

Appointed 6th June2018



Mr. Antony Ademba

Corporation Secretary

Mr. Ademba holds a Bachelor of Law degree from University of Nairobi, Post graduate diploma in law – Kenya School of law. He was appointed Corporation Secretary on 1st December 2015 after rising through the ranks from Legal Officer to Senior Legal Officer. He has vast experience within legal fraternity. He was a Resident Magistrate as well as a state counsel prior to joining the Corporation. He is the Legal Officer of Development House Management Committee as well as Technical Committee on implementation of legal advisory on Kenya Seed Company ownership dispute. He is a member of the Law society of Kenya.



III. MANAGEMENT TEAM



Mr. Richard Aiyabei

Managing Director.

Mr. Richard Aiyabei was appointed Managing Director on 22nd December 2015 after rising through the ranks from Assistant Complex Manager, complex manager, Senior Complex manager, Technical Officer, Regional Manager, Technical Manager Strategy implementation and planning and Head of Technical Division.

He holds Master of Science degree, Agronomy from University of Eldoret, Bachelor of Science in Agriculture -Moi University and Diploma in Farm Management from Egerton University.

Mr. Aiyabei has over 27 years' experience in different capacities which include Technical, Research, Financial management and socio –Economic fields. He has attended Corporate Governance course, Finance for non-finance managers, Risk management, and Anti-Fraud/corruption, performance management and Mwongozo induction course workshops accordingly.

He is a board member of the following institutions, Agro-Chemical and food Company, Kenya Seed Company, Chemelil Sugar Company, Kenya Ploughing Organization, World Ploughing Committee



Mr. Antony Ademba

Corporation Secretary

Mr. Ademba holds a Bachelor of Law degree from University of Nairobi, Post graduate diploma in law – Kenya School of law. He was appointed Corporation Secretary on 1st December 2015 after rising through the ranks from Legal Officer to Senior Legal Officer. He has vast experience within legal fraternity. He was a Resident Magistrate as well as a state counsel prior to joining the Corporation. He is the Legal Officer of Development House

Management Committee as well as Technical Committee on implementation of legal advisory on Kenya Seed Company ownership dispute. He is a member of the Law society of Kenya.



Mr. Patrick Moturi

Financial Controller

He was appointed Financial Controller in April 2017. Holds Master of Business Administration in Finance and Bachelor of Commerce (BCOM) both from University of Nairobi. He is a Certified Public Accountant of Kenya and Certified Public Secretary. He is a member of ICPAK.

He worked in both private and public Sector in various capacity as an accountant. Previous engagements include Rgni Shah &Co (CPA), Nalin Shah and Co. (CPA) and Kentrade in various capacities ranging from Audit Senior, Audit Manager, Accountant I, Senior Accountant and Management Accountant.



Winnie Macharia (Dr.)

Head of Corporate Planning & Administration

Dr. Macharia was appointed Head of Corporate Planning and Administration four year ago.

She holds Doctor of Philosophy in Business Administration from University of Nairobi as well as Master of Business Administration from Kenyatta University. She also holds a Bachelor of Education Degree from the same University as well as Higher Diploma in information Technology among other professional qualifications. She is a member of Kenya Institute of Management and Kenya Association of Public Administration professional bodies

She is a professional and accomplished administrator and manager with over 20 years' experience in senior management, administration and leadership in diverse work environment. She has four years' experience as Head of Corporate Planning and Administration in ADC, three years' experience as Provincial Director Youth Development Nairobi under the Ministry of Youth Affairs and sports and Head of Department for four years at Parklands Boys High School as well as a teacher for nine years.

MANAGEMENT TEAM (Continued)

Dr. Macharia has attended many management courses and seminars including Senior Strategic Leadership programme as well as leading with impact from Kenya School of Government, Corporate governance training for Directors, senior internal Auditor training.



Mr. Mohamed Bulle
Head of Technical Division

He was appointed the Head of Technical Division in June 2017. He holds Master of Science in Environmental Studies with specialization in sustainable development and climate change Antioch University-USA.

Mr. Bulle also holds Bachelor of Science in Agricultural Education and Extension, and Diploma in Agriculture from Egerton University, a certificate in animal health from Animal Health and Industry Training Institute (AHITI) and a certificate in meat inspection from the University of Nairobi. He is also a member of the board of the directors of North-Eastern Muslim Welfare Society which caters for the orphans and the vulnerable members of the society and a founder of Clean Air-Cool Planet Kenya Ltd, an agricultural and environmental consulting firm. Mr. Bulle has held key positions in the livestock and agriculture industry.

Mohamud is a member of the Environmental Institute of Kenya-EIK (a professional body for environmentalists). He also has accreditation with National Environmental Management Authority-NEMA as an environmental impact assessment and audit (EIA and Audit) Lead Expert



Mr. Maxwell Mugonyi
Head of Business Development

Mr. Mugonyi hold a Bachelor degree in Insurance, Higher diploma in Human Recourse Management and diploma in Business Management. He joined the Corporation in April 2006 as Human Resource Manager and rose through ranks to the current position which he has been holding since December 2013.

He has vast experience gained through working in various companies which include Kenya National Assurance Company as a management trainee, Assistant Training and personnel Officer, Personnel and training officer. Spin Knit Group of Companies as a Human Resource Manager as well as West Kenya Sugar.



Mr. Jonathan Keitany
Head of Internal Audit

Mr Keitany holds MBA (accounting) option from University of Nairobi; He is a Certified Public Accountant of Kenya and a member of ICPAK and IIA as well as certified Monitoring and Evaluation Officer.

He was appointed Head of Internal Audit in June 2017.

He has grown in the ranks within the Corporation having gained over 10 years' experience in Audit of Agricultural branches. He served as an audit and risk assessment officer in various Audit firms.

-IV. REPORT OF THE CHAIRMAN

Once again I am pleased to present the annual financial statement and report for Agricultural Development Corporation for the year ended 30th June 2018.

Business environment

The year began well in general and we experienced relatively stable and conducive weather conditions in Kitale which contributed to an improved production of seed maize from 6.9 to 7.1 million Kilos being a 3% increase in production. The corporation experienced improved production in some of its crop enterprises. However, adverse weather conditions were experienced in other places such as Tana-River and Laikipia counties where the Corporation exercises beef rearing that resulted in loss of animals and reduced herd size.

Corporate Governance

Corporate governance is the process by which Companies are directed, controlled and held accountable. The Board of Directors of Agricultural Development Corporation is responsible for the governance of the Corporation and is accountable in ensuring that the Law is complied with and that the highest standards of corporate governance and business ethics to the shareholders are complied with.

The Board of Directors follows principles of openness, integrity and accountability in its stewardship of Corporation. It recognizes the developing nature of corporate governance on a regular basis, this is fundamental to appropriate discharge of duties and responsibilities.

Future Outlook

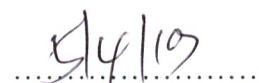
The Corporation has collaborated with the Government of Kenya to set up a Semen production centre in Kitale which construction stage was completed during the year under review and we in the process of equipping it. Once its operational, the corporation will embark on large scale production of semen to be availed to Kenyan farmer thus improved breeds while boosting the Corporation's revenue base. To this end I would like to acknowledge with thanks the support we are currently receiving from the Ministry of Agriculture, Livestock and Fisheries.

The Corporation continued growth and success is dependent on collective efforts by all its stakeholders. The Board is committed to writing a new chapter of Agricultural Development Corporation

The Corporation recognizes the important role played by the management and its workforce to ensure continued success, to this end the Corporation has made significant investment in its human resource. The Corporation continues to engage in capacity building activities to ensure its staff remains updated through seminars, professional training and workshops. In addition, the Corporation has embraced the performance contracting as a tool to ensuring service delivery and actualization of its strategic plan.

I confidently look forward to a continued strong relationship with all of our stakeholders and partners in the year 2018 – 2018 for our mutual benefits.


.....
CHAIRMAN.


.....
Date

V. REPORT OF THE MANAGING DIRECTOR

Development and Implementation of Strategic Plan.

The corporation revised its five year strategic plan 2015-2019 and is now in the process of implementing the objectives set out in its plan. Our budget and performance contract is anchored on this strategic plan, whose aim is to further improve revenue generation, efficiency enhancement, operational excellence, diversification and value addition for our products and services.

Technology and Automation.

The Corporation continues to undertake and embrace technology through automation of its operations. The current accounting system (Sera system) continues to be updated to ensure it serves the corporations needs; however, there are challenges and the corporation has commenced the procuring for a more robust enterprise resource planning (ERP) .

Core Values.

The Corporation shall continue to uphold the practice of ethical behaviour in order to exhibit good corporate image and citizenship. We will continue to pursue growth in line with our core values and a solid culture of teamwork, professionalism, innovation, creativity, accountability and passion for quality at all times.

Performance contracting

The Corporation has operated under performance contracting system in accordance with state corporation regulations 2004. We are committed to achieve the set targets through cascading from the top management to the Unit staff.

Future outlook.

The Corporation will prioritize on strategic areas including certified potatoes and seed maize production, investment in information technology and increase in ADC Certified seed maize production. The Dairy sector shall also be refocused to ensure increased milk production and production of breeding in-calf heifers. Restocking of our ranches will also continue in line with the Corporation target of increasing production and productivity in the Ranches.

The Corporation will enhance collaboration with the parent ministry and potential investors in order to increase utilization of the idle land in various regions.

I wish to extend management gratitude to the Board of Directors for their wise leadership, all Government Agencies in particular the Ministry of Agriculture Livestock and Fisheries for their invaluable support during the year.


.....
Managing Director

5/4/2019
.....
Date

VI. CORPORATE GOVERNANCE STATEMENT

ADC regards Corporate Governance as key to the success of its business operations and is unreservedly committed to applying the principles necessary to ensure that good governance is practiced in all of its business dealings in respect of its Customers, Stakeholders and Partners.

Our Corporate Governance policy functions as a built in self-regulating mechanism which provides a framework to monitor and ensure statutory compliance, foster a culture of values and rewards the highest ethical standards and personal integrity.

We place a great deal of importance on the robust corporate governance practices and are committed to applying the highest standards of business integrity and professionalism in all our activities. The Corporation achieves this by using a risk based approach to establish a system of internal control and by reviewing the effectiveness of these controls on a regular basis.

The Corporation has formulated and applies corporate governance guidelines, which stipulates the responsibilities of management and the Board and relationships with stakeholders.

Board Committees

The Corporation has set up three Board Committees to help in the implementation of its policy guidelines and strategy. These committees meet quarterly. The committees report their findings to the full Board for deliberations and subsequent ratification by the Board.

i. The Audit Committee

Charged with the responsibility of oversight and ensuring the integrity of financial statements, risk management, internal controls, compliance and ethics and effectiveness of internal and external audit activities of the Corporation and its subsidiaries. It also ensures the safeguard of the Corporation's assets.

ii. The Finance Staff and General Purpose Committee.

The Committee oversees the recruitment of Senior Management staff, Review the performance of the corporation on quarterly basis, Ensure the Human Resource policy is observed and staff matter are dealt with in accordance with laid down procedures. Further, the Committee ensures available funds are utilized prudently.

iii) Project Committee


The Committee approves and provides an oversight role on the execution of major projects in the Corporation.

Independence

All the Directors of the Board are independent of management and free from any business or other relationship, which could materially interfere with the exercise of their independent judgment.

Activities and Achievements

The Board meets quarterly and has a formal Board calendar. All directors have access to the Corporation Secretary and Legal Counsel. Currently, the Board comprises of ten non-executives and one executive director, the Managing Director


.....

Chairman

5/4/2019
.....

Date

VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

The Corporation is people driven and focuses on food security through promotion and availing of quality seed and technology transfer at subsidised prices to Kenyan farmers. The corporation exists courtesy of the farmers and other stakeholders.

As a way of appreciating the community we developed a Corporate Social Responsibility (CSR) policy to guide in identification and implementation of various community based activities aimed at improving the social well being of our people. In support of local initiatives, various CSR activities have been sponsored by the corporation thus creating a synergy of ethics where our people and the corporation come together to contribute towards improving physical infrastructure and social well being. During the year 2017/2018 the corporation undertook the following CSR activities:-

Education Support

The corporation donated materials and resources towards ensuring less fortunate students and pupils have access to education. Towards this end;

- The Corporation donates 2 nets of oranges every month to Anderson Orphanage in Kitale Trans-Nzoia County.
- The Corporation donated 3 nets of oranges towards youth conference in Buptist Church Endebess.

Community Policy

The Corporation has developed a policy whereby it contributes positively to the surrounding community in its areas of operation. Towards this end the Corporation donates 29Ltrs of milk daily to the Kenya Police GSU and Administration police in Suam Trans-Nzoia

Environment Conservation

The Corporation worked closely both with National and County Governments and other stakeholders towards environment conservation, during the year the Corporation executed facilitated the planting of trees at Sirikwa in Molo to promote a forestation.

Women Empowerment

The Corporation donated funds towards promotion of women empowerment & development to social economic empowerment women organization being sponsorship towards AFGM.

VIII. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 30th June, 2018 which show the state of affairs of *Agricultural Development Corporation* and its subsidiary – *Lands Ltd.*

Principal activities

The principal activities of the Corporation are provision of quality seeds and custodian of the national stud and Livestock development.

Results

The results of the Corporation for the year ended 30th June, 2018 was a Loss of Kshs. 298.3M as set out on pages 1.

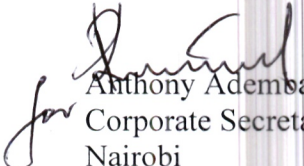
Board of Directors

The members of the Board of Directors who served during the year are shown on page V& Vii.

Auditors

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

By Order of the Board


Anthony Ademba
Corporate Secretary
Nairobi

Date: 5.4.19

IX. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act Cap. 486, require the Directors to prepare financial statements in respect of the Corporation and its subsidiary Lands Ltd, which give a true and fair view of the state of affairs of the Corporation and its subsidiary at the end of the financial year and the operating results of the Corporation and its subsidiary for that year. The Directors are also required to ensure that the Corporation keeps proper accounting records which disclose with reasonable accuracy the financial position of the Corporation and its subsidiary. The Directors are also responsible for safeguarding the assets of the Corporation and its subsidiary.


The Directors are responsible for the preparation and presentation of the Corporation's financial statements, which give a true and fair view of the state of affairs of the Corporation as at the end of the financial year ended on 30th June 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 Corporation; (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 Corporation; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Corporation's 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 2012 and the State Corporations Act Cap 446. The Directors are of the opinion that the Corporation's financial statements give a true and fair view of the state of Corporation's transactions during the financial year ended 30th June 2018, and of the Corporation's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Corporation, which have been relied upon in the preparation of the Corporation'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 Corporation will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Corporation's financial statements were approved by the Board on 10.09.2018 and signed on its behalf by:



.....
Director

.....
5/4/2019
Date

.....
Director

.....
Date



.....
Director

.....
5/4/2019
Date

REPUBLIC OF KENYA

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Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



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NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON AGRICULTURAL DEVELOPMENT CORPORATION FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying consolidated financial statements of Agricultural Development Corporation (ADC) set out on pages 1 to 30, which comprise the consolidated statement of financial position as at 30 June 2018, and the consolidated statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I 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, except for the effects of the matters described in the Basis for Qualified Opinion section of my report, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Agricultural Development Corporation and its Subsidiary as at 30 June 2018, and of its consolidated financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Property, Plant and Equipment

(i) Repossessed Land

As reported in the previous year, property, plant and equipment balance of Kshs.1,122,714,000 as at 30 June 2018 includes farms managed by the Corporation valued at Kshs.37,910,000. These farms, referred to as ADC Private Forest Ndabibi L.R. 7281/3 & 20591/86 relates to 4,000 acres of land re-possessioned from allottees who were unable to pay allotment fees.

In addition, land L.R. No.20591/86 in Ndabibi and the parcel in Molo do not have ownership documents including title deed, while No. LR 7281/3 has been encroached on by squatters although the Corporation has secured the title deed. Further, and according to information available, the process of exchanging 700 acres in Molo with 1,000 of the Corporation's land at Ndabibi had not been finalized as at 30 June 2018.

In the absence of title deeds for the land in Molo and in Ndabibi, it has not been possible to confirm their ownership.

Report of the Auditor-General on the Financial Statements of Agricultural Development Corporation for the year ended 30 June 2018

(ii) Home Farm Land

As reported also in the previous year, the Corporation's land net book value of Kshs.521,513,000 as at 30 June 2018 disclosed under Note 23(a) excludes the value of land L.R. No.10668 measuring about 2,908.42 acres known as Home Farm. Further, the Corporation does not have ownership documents to this parcel of land. It is also not clear and the management has not explained how the Home Farm parcel of land was allocated to private developers in the year 1994 and the effect on the operations of the Corporation in fulfilment of its mandate.

(iii) Garissa Irrigation Project Land

The property, plant and equipment balance of Kshs.1,122,714,000 as at 30 June 2018 still exclude the value of land measuring 319.4 hectares located in Garissa Municipality whose value has not been determined.

(iv) Variation of Contract on Bull Station

The property, plant and equipment balance of Kshs.1,122,714,000 also include as disclosed under Note 23(a) to the financial statements, additions to buildings amounting to Kshs.448,018,000 and others all totalling Kshs.492,566,000. The additions include an expenditure of Kshs.388,909,101 incurred in the construction of a Bull Station.

The contract for the construction of the Bull Station was varied by Kshs.86,049,388 from the original contract sum contrary to Section 139 (4) of Public Procurement and Asset Disposal Act. Although the variation was approved by the board, it was never subjected to any procurement proceeding as per Section 139 (1) of Public Procurement and Asset Disposal Act. The additional cost of Kshs.86,049,388 was therefore irregular.

In view of the foregoing, the completeness and accuracy of property, plant and equipment balance of Kshs.1,122,714,000 cannot be ascertained.

2. Capital Work in Progress

As reported in the previous year and as highlighted under Note 23 (c) to the financial statements, the capital work-in-progress balance of Kshs.296,925,000 as at 30 June, 2018 includes a construction project at Suam Orchards farm in Kitale valued at Kshs.9,978,000 that was started in 2006. In addition, the capital work –in progress includes an amount of Kshs.4,899,287 relating to projects that have remained idle for the last seven years. Further, the capital work-in-progress includes an amount Kshs.212,584,995 relating to equipment's that are in use at the bull station and which should have been capitalized.

In the circumstances, I am unable to confirm the carrying value of the capital work-in-progress reflected in the financial statements of Kshs.296,925,000 as at June 2018.

3. Investments

The investment balance of Kshs.467,283,000 (2017 – Kshs.476,283,000) reflected in the statement of financial position as at 30 June 2018 includes amounts relating to investments in

shares held in Chemelil Sugar Co. Ltd - Kshs.203,592,000, Development House - Kshs.90,251,000, Muhoroni Sugar Company - Kshs.41,342,000, Kenya Co-operative Creameries - Kshs.4,151,000, Kenya Grain Growers' Co-op Union - Kshs.1,404,000, Kenya Seed Company Ltd - Kshs.114,014,000, Pyrethrum Board of Kenya - Kshs.36,000, Kenya Planters' Co-op Union - Kshs.31,000 and Agro-Chemical and Food Ltd – Kshs.16,900,000, which were acquired between 1975 and 1995.

Information available indicates that Muhoroni Sugar Company, Kenya Grain Growers Co-op Union and Kenya Planters Co-op Union with investments totalling Kshs.42,777,000 are either in receivership or liquidation. In addition, Chemelil Sugar Company and the Agro-Chemical & Food Company with an investment totalling Kshs.220,492,000 have been making losses and have not paid dividend for a considerably long time. The value of the investments in these companies is, therefore, doubtful and may not be recovered. However, no provision has been made in the financial statements for the likely diminution in value of the investments.

4. Biological Assets

(i) Valuation

The consolidated statement of financial position reflects biological assets valued Kshs.1,406,950,000 as at 30 June, 2018. Included in this figure is an amount of Kshs.818,183,000 relating to crops as disclosed in Note 25 to the financial statements. Management has asserted that the Corporation has increased the acreage under crops in the year under review in line with the government's big four agenda. However, the value of crops decreased by Kshs.64,683,000 or about 4.4% from last year's figure of Kshs.1,471,633,000 in these financial statements. The basis of valuation of the crops was not provided for audit review and no reason was given for the decreased value.

(ii) Purchase of Livestock

As was reported in the previous year, the Corporation received an amount of Kshs.250,000,000 from the government in the year 2017 for purchase of livestock as a mitigation to the pastoralists against loss due to drought. Schedules provided for audit showed that the Corporation acquired 4008 animals at a total cost of Kshs.105,608,000. After effecting the loss of 60 animals and deaths of 770 animals, the management reported a net value of Kshs.86,714,000 for the animals. However, this amount is not reflected in the value of biological assets of Kshs.1,406,950,000 as at 30 June, 2018.

Consequently, the value of the biological assets of Kshs.1,406,950,000 reflected in the financial statements is not complete or fairly stated.

5. Trade and Other Payables-exchange Transactions

(i) The consolidated statement of financial position as at 30 June 2018 reflects trade and other payables balance of Kshs.1,348,701,000, which includes trade creditors and non-trade creditors of Kshs.895,515,000 and Kshs.453,186,000, respectively. As reported in the previous years, non-trade creditors' balance of Kshs.523,751,000 includes audit fees

totalling Kshs.20,194,120 that have been outstanding since 1995. No satisfactory reason has been provided for failure to pay the fees.

- (ii) The non-trade creditors' balance also includes unremitted statutory deductions of Kshs.21,286,106, Kshs.18,000,171, Kshs.60,450,319 and Kshs.68,992,733 for Pay As You Earn (PAYE), National Social Security Fund (NSSF), pension scheme deductions and Agdeco Society deductions respectively dating back to 1998.
- (iii) The trade and other payables balance for the year then ended, like in the previous years, includes an outstanding balance of Kshs.267,279,416, payable to M/S Supplies and Services Limited in respect of fertilizer supplies. The amount includes Kshs.112,219,009 being interest charged at the rate of 18% per annum based on the number of days in default as at 30 June 2014. Any interest that may be accruing to the account has not been included in these financial statements from 1 July 2014 to date. The matter is still in court.

6. Grants Reserves

The consolidated statement of financial position reflects an amount of Kshs.2,784,786,000 under grants reserves and as disclosed under Note 29 to the financial statements the amounts include Kshs.137,500,000 received from the State Department for Livestock for off-take programme, less an amount of Kshs.15,330,000, where the Corporation had been instructed to pay identified farmers who had lost their livestock. The grant of Kshs.137,500,000 was meant for off-take programme for the year and was actually spent during the year. It is therefore not clear why the amount had to be capitalised.

7. Receivables from Exchange Transactions

- (i) As reported in the previous year, trade and non-trade receivables from exchange transactions balances of Kshs.444,152,000 and Kshs.113,526,000, respectively as at 30 June, 2018 disclosed under Note 20 to the financial statements includes an amount of Kshs.9,859,415 that has remained outstanding for a long period of time dating back to 1980. In addition, the management has not provided the analyses of the specific provision of Kshs.52,499,000 for bad and doubtful debts for audit review. Further, the basis for determining the general provision of Kshs.4,909,000 has not been explained.
- (ii) Included in the non-trade debtors figure of Kshs.113,526,000 is an amount of Kshs.5,839,329 (2016/2017 – Kshs.7,226,797) described as lost cash. The reduction of the lost cash by Kshs.1,387,468 was explained as receipt from debtors. It is not clear what the description of lost cash implies. No details of the debtors to whom the amounts were received was provided for audit scrutiny. Consequently, the validity of the account cannot be confirmed.
- (iii) As also reported in the previous year, the non-trade debtors include deferred grants of Kshs.70,000,000 receivable from the parent ministry. However, to date, no documentary evidence has been provided to indicate that the amount would be receivable in the foreseeable future.

- (iv) Included in the gross trade debtors of Kshs.501,560,000 disclosed in Note 20 to the financial statements is an amount of Kshs.312,144,802 described as head office balances. The head office balances include an amount of Kshs.154,804,812 due from long term leases entered into between the Corporation and various entities which were later irregularly terminated since the government wanted to take over Galana/Kulalu ADC farms. Some of these firms have taken the Corporation to court for breach of contract, therefore the chances of recovering these debt is nil. No provision has been made in these financial statements for these balances.
- (v) As reported in the previous year, verification of records in 2015/2016 revealed that lease rental receivables totalling Kshs.214,458,668 had not been included in the financial statements. No adjustment has similarly been made in the financial statements for 2017/2018 to record this omission.

In view of the above, it has not been possible to confirm the completeness, accuracy and recoverability of receivables from exchange transactions balance of Kshs.557,678,000 as at 30 June 2018.

8. National Livestock Project

The consolidated statement of financial position and as disclosed in Note 21 to the financial statements reflects an amount of Kshs.47,758,000 (2016/2017 – Kshs.32,412,000) in respect of National Livestock Project account that is claimable from the parent ministry by the Corporation. The project started in 2006 when the Government granted ADC an amount of Kshs.198,000,000 to purchase livestock under the emergency off-take programme in drought stricken arid areas. The Corporation subsequently incurred costs totalling Kshs.47,758,000 during the year on maintenance and daily running of the project operation. The following unsatisfactory matters have been noted:

- (i) The project has been reporting losses over the years while a similar livestock enterprise under ADC is ever reporting profits.
- (ii) The current account balance of Kshs.47,758,000 is not supported by demand notes to the parent ministry or State Department of Livestock and as such it is not possible to confirm the validity and accuracy of the debt.
- (iii) The project did not prepare financial statements during the year, and as a result, it is not clear how the operating overheads were apportioned between ADC and the National Livestock Project. In addition, the state of financial performance and financial position of the project cannot be ascertained in absence of the financial statements.

9. Rental Revenue from Facilities

The consolidated statement of financial performance reflects an amount Kshs.28,064,000 under rental revenue from facilities for the year ended 30 June 2018, which is a drop by Kshs.61,702,000, from last year's figure of Kshs.89,766,000 (2015/2016 - revenue of Kshs.187,625,000). The declining trend in rental revenue has been attributed by management

to the leases stopped in Galana by the Government to create space for the Galana/Kulalu Food Security Programme. However, there has been no additional drop in leased land in the year under review. In addition, evidence available indicate that the lessees are still occupying the land and it is therefore not clear why the management has stopped accruing and receipting the income.

10. Management Fees

The consolidated statement of financial performance reflects an amount of Kshs.4,243,650 under management fees. This amount includes Kshs.2,367,660 attributed to an agreement entered into between Agricultural Development Corporation (ADC) and National Disaster Management Authority (NDMA) on "Commercial Destocking for Drought Mitigation" on 8 March 2017.

According to Clause 5 on Costs and Payments, the Corporation was to receive Kshs.19,136,867 on signing of the agreement. This amount was to be used for purchase, translocation and managing 1,000 heads of cattle for three months and a further Kshs.38,273,733 thereafter for the additional 2,000 heads of cattle. ADC was to be compensated at Kshs.30/= per cow per day as management fees. Examination of the Corporation documents did not disclose details of amounts received from this agreement and how it was applied.

In view of the foregoing, the completeness and accuracy of the management fee figure of Kshs.2,367,660 as at 30 June 2018 cannot be confirmed.

11. Loss of Fertilizer

As reported in the previous years, the Corporation lost a sum of Kshs.24,447,500 through fake bank deposit slips in respect of sale of fertilizer in Eldoret. The fertilizer, which was part of 40,000 bags of imported grade worth Kshs.111,680,000 had for unclear reasons been stored in a private store in the town. According to information available, the mode of payment was to be either through direct bank deposits where bank slips would be issued and later used for collection of the fertilizer, or by banker's cheques which had to be confirmed before the sale.

The Corporation, however, adopted the direct bank deposits method but due to weak controls, fertilizer worth Kshs.24,447,500 was released before the respective bank deposits had been confirmed. Although the management has indicated that the criminal case on the matter opened at Eldoret High Court and that some of the accused persons were acquitted, a warrant of arrest against one of the accused who absconded during the trial, has not yet been effected. Consequently, and until the matter is concluded, the recovery of the loss of Kshs.24,447,500 remains doubtful.

12. Undisclosed Material Uncertainty in Relation to Sustainability of Services

According to the consolidated statement of financial performance the Corporation reported a loss Kshs.298,371,000 for the year ended 30 June 2018. The consolidated statement of financial position reflects accumulated deficit of Kshs.760,973,000 as at 30 June 2018 (2017: accumulated deficit of Kshs.462,602,000). As of 30 June 2018 the total current assets of Kshs.888,787,000 exceeded the total current liabilities of Kshs.1,464,516,000, resulting in a

negative working capital of Kshs.575,729,000. The Corporation is, therefore, technically insolvent and its continued existence as a going concern or ability to sustain its services is dependent upon support from the National Government and its creditors. However, this material uncertainty has not been disclosed in the notes to the financial statements.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Agricultural Development Corporation (ADC) and its Subsidiary in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified 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. Except for the matters described in the Basis for Qualified Opinion and Basis for Conclusions on Lawfulness and Effectiveness in Use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance sections, I have determined that there are no Key Audit Matters to communicate in my report.

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 Qualified Opinion and Basis for Conclusions on Lawfulness and Effectiveness in Use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance sections 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

Under-collection of Revenue

The statement of comparison of budget and actual for the year ended 30 June 2018 reflects an under collection of revenue of Kshs.1,262,423,000. This represents 61% of the gross estimated receipts of Kshs.2,065,958,000. The under collection of revenue was attributed to failure to collect income on rendering services Kshs.172,416,000, farming income Kshs.880,606,000, rent/eco-tourism Kshs.267,618,000 and investment income Kshs.64,800,000. The Corporation's resources were not efficiently and effectively used hence, the failure to meet revenue targets for these items during the financial year under review.

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 matter described in the Basis for Qualified Opinion and Basis for Conclusions on Lawfulness and Effectiveness in Use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

Board Representation in Other Companies

Despite the Corporation controlling over 50% shareholding in four out of the eight companies shown in the table below, the composition of the board in these companies does not reflect this fact. According to the Corporation's management, only the chief executive represents the Corporation in the boards of these four companies.

S/No	Descriptions	Amount (Kshs)	% Ownership
1	Chemilil Sugar Company Ltd	203,592,000	96.22%
2	Development House	90,251,000	50.00%
3	Muhoroni Sugar Company	41,342,000	74.17%
4	Kenya Grain Growers Co-operative Union	1,123,000	1.92%
5	Kenya Seed Company Ltd	114,014,000	51.83%
6	Pyrethrum Board of Kenya	36,000	<1%
7	Kenya Planters Co-op Union	25,000	<1%
8	Agro-Chemical and Food Ltd	16,900,000	27%
	Total	467,283,000	

No reason was provided for the failure by the Corporation to have a sizeable representation in the boards of the entities indicated above.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether processes and

systems of internal control, risk management and 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 ability of Agricultural Development Corporation to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either intends to cease operations, or have no realistic alternative but to do so.

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

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

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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 scepticism throughout the audit. I also:

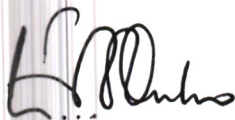
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting 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 going concern 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 ability of Agricultural Development Corporation 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 Corporation 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 Agricultural Development Corporation 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.



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

Nairobi

16 April 2019

**XI. CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30TH JUNE 2018**

	Note	2017-2018 KSH '000'	2016-2017 KSH '000'
Revenue from Non-Exchange transactions			
Revenue Grants	1	20,000	300,000
Revenue from exchange transactions			
Service units income	2	16,557	22,327
Farming Income	3	616,477	882,778
Rental revenue from facilities	4	28,064	89,766
Investments Income	5	15,200	24,772
Management Fee	6	4,244	1,634
Other Income	7	122,993	73,266
		803,535	1,094,543
		823,535	1,394,543
Expenses			
Employee costs	8	463,594	461,942
Depreciation and amortization expense	9	54,134	30,035
Repairs and maintenance	10	32,254	34,339
Subscription & Donations	11	187	500
Contracted services	12	73,111	68,229
General expenses	13	483,164	511,129
Board expenses	14	7,520	13,831
Finance costs	15	25,352	57,852
		1,139,316	1,177,857
Other gains/(losses)			
unrealized gain on changes in Biological Assets	16	84,692	(73,595)
Loss due to death of Livestock	17	(67,276)	(71,968)
Loss on foreign exchange transactions		(6)	7
Gain on sale of fixed assets	18	-	86
Surplus before tax		(298,371)	71,216
Taxation		-	-
Surplus for the year		(298,371)	71,216

The notes set out on pages 17 to 26 form an integral part of the Financial Statements

**XII. CORPORATION STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30TH JUNE 2018**

	Note	2017-2018 KSH '000'	2016-2017 KSH '000'
Revenue from Non-Exchange transactions			
Revenue Grants	1	20,000	300,000
Revenue from exchange transactions			
Service units income	2	16,557	22,327
Farming Income	3	616,477	882,778
Rental revenue from facilities	4	28,064	89,766
Investments Income	5	15,200	24,772
Management Fee	6	4,244	1,634
Other Income	7	120,768	68,648
		801,310	1,089,926
		821,310	1,389,926
Expenses			
Employee costs	8	460,903	459,252
Depreciation and amortization expense	9	54,033	29,903
Repairs and maintenance	10	32,254	34,339
Subscription & Donations	11	187	500
Contracted services	12	73,111	68,229
General expenses	13	483,044	511,009
Board expenses	14	6,714	13,128
Finance costs	15	24,901	57,392
		1,135,147	1,173,752
Other gains/(losses)			
Unrealize gain on changes in Biological Assets	16	84,692	(73,595)
Loss due to death of Livestock	17	(67,276)	(71,968)
Loss on foreign exchange transactions		(6)	7
Gain on sale of fixed assets	18	-	86
Surplus before tax		(296,427)	70,704

The notes set out on pages 17 to 26 form an integral part of the Financial Statements

**XIII. CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 30TH JUNE 2018**

Assets	Note	2017-2018	2016-2017
Current assets		KSH '000'	KSH '000'
Cash and cash equivalents	19	82,403	410,444
Receivables from exchange transactions	20	557,678	518,237
Current Account with National Live stock Project	21	47,758	32,412
Inventories	22	200,948	130,993
		<u>888,787</u>	<u>1,092,086</u>
Non-current assets			
Property, plant and equipment	23(a)	1,122,714	684,283
Capital Work In progress	23(c)	296,925	553,618
Investments	24	467,283	467,283
Biological Assets	25	1,406,950	1,471,633
		<u>3,293,872</u>	<u>3,176,817</u>
		<u>4,182,659</u>	<u>4,268,903</u>
Liabilities			
Current liabilities			
Trade & other payables-exchange transactions	26	1,348,701	1,267,914
Borrowings	28(a)	115,815	110,030
		<u>1,464,516</u>	<u>1,377,944</u>
Non-current liabilities			
Borrowings	28(b)	233,853	230,469
		<u>1,698,369</u>	<u>1,608,413</u>
		<u>2,484,290</u>	<u>2,730,490</u>
Net assets			
Grants Reserves	29	2,784,786	2,662,616
Capital Reserve	30	12,775	12,775
Reserves	31	447,701	447,701
Accumulated (Deficit)		(760,973)	(462,602)
		<u>2,484,289</u>	<u>2,660,490</u>
		<u>4,182,659</u>	<u>4,268,903</u>

The financial statements set out in pages 1 to 8 and notes thereof were approved by the Board of Directors on 10.09.2019 and signed on behalf of by:

for Managing Director
Name: Mohammed Bule
Sign: [Signature]
Date: 5/4/2019

for Head of finance
Name: Marrison Andwati
ICPAK No. 13639
Sign: [Signature]
Date: 5/4/2019

Chairman
Name: BENJAMIN CHESIRE CHEBOI EBS
Sign: [Signature]
Date: 5/4/2019

**XIV. CORPORATION STATEMENT OF FINANCIAL POSITION
AS AT 30TH JUNE 2018**

Assets

Current assets

	Note	2017-2018 KSH '000'	2016-2017 KSH '000'
Cash and cash equivalents	19	64,381	409,452
Receivables from exchange transactions	20	536,640	496,839
Current Account with National Live stock Project	21	47,758	32,412
Inventories	22	200,948	130,993
		849,727	1,069,696

Non-current assets

Property, plant and equipment	23(a)	638,584	200,053
Capital Work In progress	23(c)	296,925	553,618
Investments	24	467,283	467,283
Biological Assets	25	1,406,950	1,471,633
Investment in Subsidiary-Lands Ltd		31,434	31,434
		2,841,176	2,724,021
		3,690,903	3,793,718

Liabilities

Current liabilities

Trade & other payables-exchange transactions	26	1,346,021	1,265,474
Borrowings	28(a)	115,815	110,030
		1,461,836	1,375,504

Non-current liabilities

Current Account with Subsidiary- Lands Ltd	27	541,670	560,064
Borrowings	28(b)	233,853	230,469
		775,523	790,533

Total Liabilities

Net assets

Grants Reserves	29	2,760,506	2,638,337
Accumulated (Deficit)		(841,711)	(1,010,656)
		1,453,544	1,627,681
		3,690,903	3,793,718

The financial statements set out in pages 1 to 8 and notes thereof were approved by the Board of Directors on 10.09.2018 and signed on behalf of by:

Managing Director

Head of finance

Chairman

Name: Mohammed Phulla

Name: Morrison Andwani

Name: BENJAMIN CHESTRE CERBOI ROBS

ICPAK No. 13639

Sign: [Signature]

Sign: [Signature]

Sign: [Signature]

Date: 5/4/2019

Date: 5/4/19

Date: 5/4/19

**XV. LANDS LTD
STATEMENT OF FINANCIAL POSITION
AS AT 30TH JUNE 2018**

Assets		2017-2018	2016-2017
Current assets	Note	KSH '000'	KSH '000'
Cash and cash equivalents	19	18,022	992
Receivables from exchange transactions	20	21,038	21,398
		39,060	22,390
Non-current assets			
Property, plant and equipment		484,130	484,231
Current Account with Parent Co.	27	541,670	560,064
		<u>1,025,800</u>	<u>1,044,295</u>
		<u>1,064,860</u>	<u>1,066,685</u>
Liabilities			
Current liabilities			
Trace & other payables -exchange transactions	26	2,560	2,440
Net assets			
Equity			
Authorized and issued fully paid 1,000 Ord. Shares @20		20	20
Grants Reserves		55,694	55,694
Capital Reserve	30	12,775	12,775
Reserves	31	447,701	447,701
Accumulated surplus/ (Deficit)		546,110	548,055
		<u>1,062,300</u>	<u>1,064,245</u>
		<u>1,064,860</u>	<u>1,066,685</u>

The financial statements set out in pages 1 to 8 and notes thereof were approved by the Board of Directors on 29.09.2018 and signed on behalf of by:

Managing Director
for Name: Mohammed Kullo

Head of finance
for Morrison Andwatu
ICPAK No. 13639

Chairman
.....

Sign [Signature]

[Signature]

[Signature]

Date: 5/4/2019

5/4/2019

5/4/2019

**STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30TH JUNE 2018**

	Equity (Grants) Kshs '000	Capital Reserves Kshs '000	Revaluation Reserve Kshs '000	Profit/ Loss Kshs '000	Total Kshs '000
Balance as at 30th June 2016	1,742,617	12,775	447,701	(533,818)	1,669,274
Adjustments					-
Addition	990,000	-	-	-	990,000
Transfers to accumulated surplus/Deficit	-	-	-	-	-
Balance as at 30 June 2017	-	-		71,216	71,216
	2,732,617	12,775	447,701	(462,602)	2,730,490
Addition	52,170	-	-	-	52,170
Transfers to accumulated surplus/Deficit	-	-	-	(298,371)	(298,371)
Balance as at 30 June 2018	2,784,787	12,775	447,701	(760,973)	2,484,289

**XVI. STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 30TH JUNE 2018**

	Note	2017-2018 KSHS '000'	2016-2017 KSHS '000'
Cash flows from operating activities			
Surplus for the year		(298,371)	71,216
Adjustments for:			
Depreciation of property and equipments	21(a)	54,134	30,035
Profit on Disposal of fixed assets	16	-	(86)
Revaluation in fair value of biological assets	15	(17,413)	247,598
Operating profit before working capital changes		(261,650)	348,763
Increase/(decrease) in:			
Debtors	19	30,559	(16,890)
Inventories	21	(69,955)	46,581
Biological assets	24	64,683	(11,306)
Injection to National livestock project	20	(15,346)	(7,946)
Creditors	25	80,787	(327,364)
Purchase of fixed assets	22(a)	(27,022)	(24,873)
Purchase of Livestock		(50,375)	(355,478)
		13,331	(697,276)
Cash generated from operations		(248,320)	(348,513)
Cash flows from investing activities			
Capital WIP	22(c)	(246,390)	(215,104)
Proceeds from sale of assets	16	-	120
Net cash flows used in investing activities		(246,390)	(214,984)
Cash flows from financing activities			
Borrowings	27	9,169	53,940
Government Grants	28	157,500	920,000
		166,669	973,940
Net increase in cash and cash equivalents		(328,041)	410,444
Beginning of period		410,444	21,424
Net increase in cash and cash equivalents	18	(328,041)	389,020
Cash at the end		82,403	410,444

**XVII. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL
FOR THE YEAR ENDED 30TH JUNE 2018**

	Note	Budget	Actual	Variance
		2017-2018	2017-2018	
Revenue		Kshs '000	Kshs '000	Kshs '000
Revenue from services units	34(a)	188,973	16,557	172,416
Farming Income	34(b)	1,497,083	616,477	880,606
Rent/ Eco-Tourism		295,682	28,064	267,618
Investment Income		80,000	15,200	64,800
Management Fees		-	4,244	(4,244)
other incomes		4,220	122,993	(118,773)
		2,065,958	803,535	1,262,423
Expenses				
Employees cost	34(c)	564,838	463,596	101,242
Depreciation and amortization		60,538	54,134	6,404
Repair and maintenance	34(d)	51,195	32,254	18,941
Subscription & Donation		1,065	187	878
Contracted Services		66,931	73,111	(6,180)
General Expenses	34(e)	1,082,463	483,160	599,303
Board Expenses		16,644	7,520	9,124
Finance Costs	34(f)	87,588	25,352	62,236
Total expenditure		1,931,262	1,139,314	791,948

XVIII. NOTES TO THE FINANCIAL STATEMENTS

A. Statement of compliance and basis of preparation

The corporation's financial statements have been prepared in accordance with and in compliance with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Corporation and all values are rounded to the nearest thousand (Ksh000). The accounting policies have been consistently applied to all the years presented.

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

Reporting Entity

Agricultural Development Corporation (ADC) (the corporation) is a body corporate incorporated in Kenya under Cap 444 of the laws of Kenya and is domiciled in Kenya. The consolidated financial statements comprise the Corporation and its Subsidiary Land Ltd (Wholly Owned) (Together referred to as the 'group' and individually referred to as 'Company')

Property, Plant and Equipment

Property, plant and equipment are initially recorded at cost. All the property, plant and equipment are stated at historical cost less depreciation.

Depreciation has been charged on the book value of fixed assets at the following rates:-

Land	Nil
Building	5% p.a.
Fencing and water supply	10% p.a.
Furniture and equipment	20% p.a.
Computers	30% p.a.
Motor vehicles and tractors	25% p.a.
Permanent improvements in subsidiary company	2.5% p.a.
Farm equipment and machinery	20% p.a.
Small tools	50% p.a.
Land reclamation and drainage	20% p.a.

Taxation

There is no tax Liability arising because the Corporation has been exempted from taxation as per Kenya Gazette Supplement Number 59 of 21st April, 1986

Harvested crops and cultivation

Harvested crops and cultivation are valued at net realisable value. Costs comprise expenditure incurred in normal course of business including direct material cost, labour and production overheads wherever appropriate. Net realisable value is the price at which the stocks can be realised in normal course of business after allowing for costs of realisation.

Notes to Financial Statements (Continued)

B. Summary of significant accounting policies

Revenue recognition

i) Revenue from non-exchange transactions

Revenues from non-exchange are recognized when it is probable that the economic benefits or services potential associated with the asset will flow to the Corporation and the fair value of the asset can be measured reliably.

Revenue from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the assets (cash, good, 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 Corporation and can be measured reliably.

Government Grants

Recurrent Grant

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate recurrent expenditure financial support to the Corporation with no future related costs are recognized in the statement of financial performance in the period in which they become receivable.

Development Grant

Government grants whose primary condition is that the Corporation should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the statement of financial position and transferred to capital reserve on completion/ acquisition of the non-current asset.

ii) Revenue from exchange transactions

Rendering of services

The Corporation has three service units Engineering service, Farm Advisory Management Services (FAMS) and Agribusiness. Engineering services unit deal with repair of equipments and fabrication of farm implements. During the year Ksh 22,326,984 was realized from the units from completed contracts.

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

Farming Income

Revenue from the sale of farm outputs is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the Corporation.

Dividends and Other external Investments

Dividends or similar distributions are recognized when the shareholder's or the Corporation's right to receive payments is established. The Corporation receives dividends from Kenya Seed Company where it has a 52% shareholding. Further, the Corporation has a joint ownership of the Development with Agricultural Development Corporation where process on the rented space is shared on equally.

Notes to Financial Statements (Continued)

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue.

b) Budget information

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 Corporation. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or Corporation 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) Investment property

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.

d) Property, plant and equipment

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 Corporation recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

e) Leases

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Corporation. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

Notes to Financial Statements (Continued)

f) Intangible assets

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. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

The useful life of the intangible assets is assessed as either finite or indefinite.

i) 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 Corporation 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.

Loans and borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

IPSAS 29.65

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.

g) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and condition is accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Notes to Financial Statements (Continued)

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Corporation.

h) Provisions

Provisions are recognized when the Corporation 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 Corporation 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.

i) Contingent liabilities

The Corporation did not have any contingent liability. However, in case of any contingencies details are disclosed in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Contingent assets

The Company did not have any contingent asset. However, In case of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company discloser is made in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

j) Nature and purpose of reserves

The Corporation creates and maintains reserves in terms of specific requirements. Corporation has got capital reserves from Agricultural settlement fund and revaluation reserves from revolution of land.

k) Changes in accounting policies and estimates

The Corporation recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

l) Employee benefits

Retirement benefit plans

The Corporation provides retirement benefits for its employees. Defined contribution plans are post employment benefit plans under which the Corporation pays fixed contributions into a separate Company (a fund), and will have no legal or constructive obligation to pay further contributions if the

Notes to Financial Statements (Continued)

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) Borrowing costs

Borrowing costs Include interest, amortization of discounts or premiums on borrowing, and amortization of ancillary costs incurred in the arrangements of borrowing. The Corporation adopts expenses model where borrowing costs are charged to expenses in the period when they are incurred.

n) Related parties

The Corporation regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Corporation, or vice versa. Members of key management are regarded as related parties and comprise of the Board of directors, Managing Director and senior managers

o) Service concession arrangements

The Corporation analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Corporation recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Corporation also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

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 imprest and advances to authorised staff which were not surrendered or accounted for at the end of the financial year.

Trade and other receivables

Trade receivables are carried at their original invoiced amount less an estimate made for bad and doubtful receivables based on a review of all outstanding amounts, on an account by account basis, at the year end. Bad debts are written off in the year in which they are identified as irrecoverable.

Notes to Financial Statements (Continued)

r) Trade and other payable

Accounts payable are non interest bearing financial liabilities and are carried at amortized cost, which is measured at the fair or contractual value of the consideration to be paid in future in respect of goods and services supplied by the suppliers, whether billed to the Corporation or not, less any payments made to the suppliers.

s) Biological assets

Living plants and animals with probable future economic benefits which are owned and controlled by the corporation are accounted for as biological assets. Harvested products from the Corporation's biological assets and agricultural produce are measured on initial recognition and at each reporting date at their fair value less estimated point of sale costs.

The fair value of the biological assets and agricultural produce that have an active market is determined using the quoted price in the market. The fair value of the biological assets that do not have an active market is determined at the present value of the expected net cash flows discounted at the current market determined pre-tax borrowing rate. The fair value of the Corporation's newly planted crops is estimated by reference to costs incurred on the crops up to the reporting date.

Point of sale costs include commissions to brokers and dealers, levies by regulatory agencies and transfer taxes and duties but exclude transport and other costs necessary to get the assets to the market.

For financial reporting purposes, the Corporation classifies its biological assets as follows:

(i) *Consumable biological assets*

Consumable biological assets are those that are to be harvested as agricultural produce or to be sold as biological assets. These are seasonal crops grown by the Corporation i.e. maize, wheat, sunflower, pasture

(ii) *Bearer biological assets*

Other biological assets are classified as bearer biological assets.

Gains or losses arising on initial recognition of biological assets and agricultural produce and from changes in fair value less point of sale costs are recognized in the income statement for the year.

u) Comparative figures

Where necessary comparative figures for the previous financial year have been included.

v) Significant judgments and sources of estimation uncertainty

The preparation of the Corporation'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.

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

Notes to Financial Statements (Continued)

liabilities within the next financial year, are described below. The Corporation 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 Corporation. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

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 Corporation
- 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

w) Subsequent events

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

x) Financial Risk management

The Corporation operates through borrowing from financial institutions which brings exposure to variety of financial risks including credit risk and effects of changes in debt and interest rates. The Corporation's overall risk management objectives focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on its performance.

Risk management is carried out by a select committee under the guidance of the Board under the audit and risk committee. The Committee review the market trends and information available to evaluate the potential exposures. After which it develop strategies of mitigating against market risks. The Board committee provide policies for overall risk management.

i) Market Risk

Market risk is the risk that the fair value of instrument will fluctuate due to change in market valuables such as interest rates and foreign exchange rates. The objective of market risk management policy is to protect and enhance the statement of financial position and income statement by managing and controlling market risk exposure within acceptable parameters and to optimize the funding of business operations and facilitate capital expansion.

a) Interest rate risk

Interest rate risks arise from fluctuation in the bank borrowing rate. After the Government introduced capping of base rate charged by banks, this risk has become easy to manage since there is no much fluctuations in the interest rate.

b) Exchange risks

Though the Corporation operates in Kenyan Currency, It's exposed to risks arising from various currency exposures, primarily with respect to Eco-tourism activities in Galana ranch where customers pay in US Dollar.

Notes to Financial Statements (Continued)

ii) Liquidity Risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of Corporation's short medium and long term funding and liquidity requirements. The Corporation manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching profiles of financial assets and Liabilities.

iii) Operational risk

Operational risk is the risk of direct and indirect loss arising from a wide variety of causes associated with the Corporation's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risk such as legal and regulatory requirements and generally acceptable standards of corporate behaviour. The Corporation seeks to ensure that the key operational risk are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor, control and report such risks.

The Corporation's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Corporation's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management.

This responsibility is supported by the development of overall Corporation standards for management of operational risk in the following area:

- Requirement for appropriate segregation of duties, including the independent authorization of transactions.
- Requirements for reconciliation and monitoring of transactions.
- Compliance with regulatory framework.
- Documentation of controls and procedures.
- Training and professional development.
- Development of contingency plans.
- Risk mitigation, including insurance where this is effective.

Operational risk is managed by a programme of regular reviews undertaken by the Internal Audit and the results of the reviews are discussed with the management, with summaries submitted to the Audit Committee.

Notes to Financial Statements (Continued)

1. Income from Non- Exchange transaction

The Government in the year under review through the Ministry of Agriculture provided Kshs.20,000,000 under the Recurrent to the Corporation

	<u>Consolidated</u>		<u>Company</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>
State Department of Agriculture	20,000	100,000	20,000	100,000
State Department of Agriculture	-	200,000	-	200,000
Total	20,000	300,000	20,000	300,000

2. Service units incomes

	<u>Consolidated</u>		<u>Company</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>
Contract Income	13,111	18,035	13,111	18,035
Transport Income	3,446	4,292	3,446	4,292
Total	16,557	22,327	16,557	22,327

3. Farming Income

	<u>Consolidated</u>		<u>Company</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>
Sale of Commercial maize	34,885	124,852	34,885	124,852
Sale of seed maize	296,546	484,182	296,546	484,182
Other Farm produce	101,610	101,379	101,610	101,379
Sale of steers	43,820	44,677	43,820	44,677
Sales of in-calf Heifer	8,215	9,358	8,215	9,358
Other Livestock	22,362	21,835	22,362	21,835
Sale of Milk	76,564	71,306	76,564	71,306
Sale of other animal products	3,345	2,686	3,345	2,686
Sale of Hay	28,688	22,241	28,688	22,241
Grazing fees	442	263	442	263
Total	616,477	882,778	616,477	882,778

Note; sale of seed maize include kshs. 40,574,830 of ADC maize variety and Kshs.255,970,899 to Kenya Seed Co. respectively during the year.

4. Rental Revenue from

	<u>Consolidated</u>		<u>Company</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>
Lease Rental	12,226	82,273	12,226	82,273
Rent of Property	15,838	7,493	15,838	7,493
Total	28,064	89,766	28,064	89,766

5. Investments income

	<u>Consolidated</u>		<u>Company</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>
Proceeds from Development house	15,200	24,772	15,200	24,772

6. Management fees

	<u>Consolidated</u>		<u>Company</u>		Lands Ltd	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>
Management fees	4,244	1,634	4,244	1,634	-	-

Management fees relates to fees charged by ADC to National Drought Management Authority for their animals kept at ADC Galana Ranch

7. Other income

	<u>Consolidated</u>		<u>Company</u>		Lands Ltd	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>
Sale of Feeds	44,844	48,448	44,844	48,448	-	-
Training Fees AI center	-	4,248	-	4,248	-	-
Miscellaneous Income	78,149	20,570	75,924	15,952	2,225	4,618
Total	122,993	73,266	120,768	68,648	2,225	4,618

Miscellaneous income include Kshs. 3,368,785 from galana on impounded charcoal and illegal grazers, 2,225,113 from lands ltd on survey fees by Lands Ltd . In Addition, the Corporation had launched an insurance claim with UAP insurance and they committed to pay Kshs. 55,838,545

8. Employee costs

	<u>Consolidated</u>		<u>Company</u>		Lands Ltd	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>
Salaries	104,334	107,429	103,146	106,240	1,188	1,188
Wages	147,115	137,724	147,115	137,724	-	-
NSSF	2,370	2,147	2,363	2,139	7	7
Leave Expenses	1,567	1,926	1,554	1,914	13	12
House allowance	58,851	59,449	57,951	58,549	900	900
Commuter allowance	10,095	10,466	9,819	10,190	276	276
Responsibility allowance	10,128	9,363	10,008	9,243	120	120
Gratuities	14,006	13,007	14,006	13,007	-	-
Terminal dues	775	3,816	775	3,816	-	-
Administrative wages	46,957	46,003	46,957	46,003	-	-
Pension contribution	10,811	11,098	10,624	10,911	187	187
Acting Allowance	366	690	366	690	-	-
Hardship Allowance	1,931	1,792	1,931	1,792	-	-
Duty Allowance	2,917	2,899	2,917	2,899	-	-
Education & training	901	2,302	901	2,302	-	-
Medical expenses	19,327	19,537	19,327	19,537	-	-
Free Issues to staff	4,339	4,786	4,339	4,786	-	-
Travel, accomodation, subsistence and other	26,804	27,510	26,804	27,510	-	-
Total	463,594	461,942	460,903	459,252	2,691	2,691

Notes to Financial Statements (Continued)

9. Depreciation and amortization expense

	Consolidated		Company		Lands Ltd	
	2018	2017	2018	2017	2018	2017
	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000
Property, plant and equipment	54,134	30,035	54,033	29,903	101	133
Total	54,134	30,035	54,033	29,903	101	133

10. Repairs and maintenance

	Consolidated		Company		Lands Ltd	
	2018	2017	2018	2017	2018	2017
	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000
Property	4,938	4,198	4,938	4,198	-	-
Machinery & Equipment	16,319	17,647	16,319	17,647	-	-
Vehicles	10,997	12,494	10,997	12,494	-	-
Total	32,254	34,339	32,254	34,339	-	-

11. Subscription and Donations

	Consolidated		Company		Lands Ltd	
	2018	2017	2018	2017	2018	2017
	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000
Donations	187	500	187	500	-	-

12. Contracted services

Contract Services relate to expenditure incurred on land preparation contracts for Ploughing, harrowing, Planting and spraying among others.

	Consolidated		Company		Lands Ltd	
	2018	2017	2018	2017	2018	2017
	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000
Contracts Costs	73,111	68,229	73,111	68,229	-	-
Total						

Notes to Financial Statements (Continued)

13. General Expenses

The following cost items has been reinstated for the year 2017/2018:

	Consolidated		Company		Lands Ltd	
	2018 Shs 000	2017 Shs 000	2018 Shs 000	2017 Shs 000	2018 Shs 000	2017 Shs 000
Advertising, Show and publications	9,621	10,096	9,621	10,096	-	-
Audit fees	1,186	1,186	1,066	1,066	120	120
Consumables	10,712	11,480	10,712	11,480	-	-
Electricity & Water	9,553	5,935	9,553	5,935	-	-
Fuel and oil	58,159	61,954	58,159	61,954	-	-
Insurance	997	20,072	997	20,072	-	-
Legal expenses	44,879	65,908	44,879	65,908	-	-
Licenses and cesses	2,449	5,101	2,449	5,101	-	-
Fertilizer	89,487	80,708	89,487	80,708	-	-
Herbicides, Insecticides ,Veterinary	94,830	78,527	94,830	78,527	-	-
Feed stuffs & Menerals	49,181	33,193	49,181	33,193	-	-
Packing materials	11,603	12,328	11,603	12,328	-	-
Seed	29,451	31,009	29,451	31,009	-	-
Raw Marterials -Feedmill	32,250	45,859	32,250	45,859	-	-
Postage & Telephone	3,512	3,341	3,512	3,341	-	-
Printing and stationery	3,764	4,620	3,764	4,620	-	-
Rent & Rates	393	335	393	335	-	-
Security costs	622	578	622	578	-	-
Royalties(Seed)	1,882	-	1,882	-	-	-
Inspection Fees	4,624	6,232	4,624	6,232	-	-
Training Costs- AI Center	25	2,177	25	2,177	-	-
Professional Fees	76	932	76	932	-	-
Fines and penalties	3	-	3	-	-	-
Transport	11,525	21,475	11,525	21,475	-	-
Research Expenses	348	1,567	348	1,567	-	-
Milk To Calves	4,487	5,166	4,487	5,166	-	-
Other	7,545	1,350	7,545	1,350	-	-
Total	483,164	511,129	483,044	511,009	120	120

14. Board expenses

	Consolidated		Company		Lands Ltc	
	2018	2017	2018	2017	2018	2017
	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000
Emoluments	5,142	9,475	4,594	9,083	548	392
Milage/Travelling	2,378	3,222	2,120	2,911	258	311
Insurance	-	394	-	394	-	-
Airtime	-	740	-	740	-	-
Total	7,520	13,831	6,714	13,128	806	703

15. Finance Costs

	Consolidated		Company		Lands Ltc	
	2018	2017	2018	2017	2018	2017
	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000
Bank charges	1,572	13,355	1,121	12,895	451	459
Interest	23,780	44,497	23,780	44,497	-	-
Total	25,352	57,852	24,901	57,392	451	459

16. Change in Biological Assets

In line with IPSAS No.27, the Corporation biological asstes Increased in value by Kshs. 84.7M during the year arising from changes in fair value. The Corporation adoprts the market value less cost to sell valuation model

17. Livestock worth 67.3M died during the year under review due to persistence drought as follows

	Consolidated		Company		Lands Ltc	
	2018	2017	2018	2017	2018	2017
	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000
Loss due to death of livestock	67,276	71,968	67,276	71,968	-	-

18. Gain on Sale of Assets

	2018	2017
	Motor Veh & Tractors	Motor Veh & Tractors
Cost	-	3,400
Acc. Depreciation	-	(3,366)
NBV	-	34
Sales Proceeds	-	120
Total Gain on Sale of Assets	-	86

Notes to Financial Statements Continued

19. Cash and Cash Equivalents	Consolidated		Company		Lands Ltd	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
19 a)Bank	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>
Name of the Bank						
Consolidated Bank	14,973	388,179	14,973	388,179	-	-
National Bank	60,159	7,706	42,137	6,714	18,022	992
Kenya Com Bank	6,337	14,183	6,337	14,183	-	-
	81,469	410,068	63,447	409,076	18,022	992
19b)Cash-in-hand	934	376	934	376	-	-
Total	82,403	410,444	64,381	409,452	18,022	992

20. Restated Receivables from Exchange Transactions

In the year 2016/2017 the Corporation erroneously accrued Kshs. 70M as receivable. Kshs. 50M was allocated to the Corporation for off-take program in drought stricken areas but had not been received as at the close of the year. Further, Kshs. 20M was sent back to the Ministry to facilitate an aid Chemilil Sugar Company, this was erroneously accrued as receivable from Chemilil Sugar to Company. To correct this, 2016/2017 balances reported on grants and receivable has been reinstated to exclude this amount since the same was not received/reimbursed during the year under review as anticipated.

	Consolidated	Company	Lands Ltd
20(a) Non-trade Debtors	<u>2017</u>	<u>2017</u>	<u>2017</u>
Reported balance	194,150	193,628	522
Less			
Deffered Grants	70,000	70,000	-
Restated balance	124,150	123,628	522

	Consolidated		Company		Lands Ltd	
	Restated		Restated		<u>2018</u>	<u>2017</u>
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>		
	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>
Trade Debtors	501,560	451,495	480,507	430,082	21,053	21,413
Specific provision	(52,499)	(52,499)	(51,962)	(51,962)	(537)	(537)
General Provision	(4,909)	(4,909)	(4,909)	(4,909)	-	-
Total Current Receivables	444,152	394,087	423,636	373,211	20,516	20,876
Non- Trade Debtors						
Non - Trade (note 20(a))	113,526	124,150	113,004	123,628	522	522
Total	557,678	518,237	536,640	496,839	21,038	21,398

Notes to Financial Statements (Continued)

21. Current account with NLP

The Government provided funds for emergency Livestock offtake in arid areas. During the year the Corporation incurred Kshs.40,326,085 on maintenance and daily running of the projects operation.

	<u>2018</u>	<u>2017</u>
	<u>Kshs.'000'</u>	<u>Kshs.'000'</u>
NLP Current Account	245,758	230,412
Grants	(198,000)	(198,000)
TOTAL	<u>47,758</u>	<u>32,412</u>

22. Inventories

	<u>2018</u>	<u>2017</u>
	<u>Kshs.'000'</u>	<u>Kshs.'000'</u>
Building materials	1,700	1,901
Fencing & Water Supplies	7,998	8,198
Fertilizer	11,384	12,081
Feedstuffs & Minerals	1,016	1,409
Herbicides & Insecticides	16,113	9,099
Packing Materials	1,502	1,665
Petroleum Products	1,205	2,428
Machinery & Equipment Spares	6,870	7,324
Vehicles & Tractor Spares	10,131	10,337
Veterinary Products	4,556	3,212
Seeds	6,605	5,174
Sundries	1,865	1,725
Feedmill Raw Materials	2,033	2,514
Feedmill Finished products	537	506
Stationery	671	1,518
Laboratory Chemicals	688	691
Lubricants	-	10
Embroy Transafer	336	336
ADC Seed	25,639	53,172
Harvested Crops	105,283	12,879
Provision for Obsolete stock	(5,184)	(5,184)
Total	<u>200,948</u>	<u>130,993</u>

Notes to Financial Statements (Continued)

23(a). PROPERTY PLANT & EQUIPMENT

COST	Leased	Farms		Fencing						Totals
	Farms	Managed by ADC	Buildings	Water Supply	Farm Equipment	Furniture &Equipment	Motor Vehicles	Small Tools	Land Reclamation	
	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'
At 1st July 2016	454	521,513	126,937	68,638	296,488	48,355	434,428	4,097	9,177	1,510,088
Adjustment	-	-	1,639	-	21,710	1,102	357	65	-	24,873
Additions	-	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	(3,400)	-	-	(3,400)
At 30th June 2017	454	521,513	128,576	68,638	318,198	49,457	431,385	4,162	9,177	1,531,561
Additions	-	-	448,018	17,595	12,966	231	10,516	72	3,168	492,566
Adjustment	-	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-	-	-
At 30th June 2018	454	521,513	576,594	86,233	331,164	49,688	441,901	4,234	12,345	2,024,127
DEPRECIATION										
At 1st July 2016	199	-	60,753	64,074	251,740	40,190	392,761	3,999	6,892	820,609
Charge for the year	7	-	3,391	456	13,292	1,853	10,497	81	457	30,035
Disposals	-	-	-	-	-	-	(3,366)	-	-	(3,366)
At 30th June 2017	206	-	64,144	64,530	265,032	42,043	399,892	4,081	7,349	847,279
Charge for the year	7	-	25,622	2,170	13,226	1,529	10,502	77	999	54,132
Disposals	-	-	-	-	-	-	-	-	-	-
At 30th June 2018	213	-	89,766	66,700	278,258	43,572	410,394	4,158	8,348	901,411
NET BOOK VALUE										
At 30th June 2018	241	521,513	486,828	19,533	52,906	6,116	31,506	76	3,997	1,122,714
At 30th June 2017	248	521,513	64,433	4,108	53,167	7,414	31,492	81	1,828	684,283

Notes to Financial Statements (Continued)

23(b). PROPERTY PLANT & EQUIPMENT

COST	Farms managed by ADC	Buildings	Fencing Water Supply	Farm Equipment	Furniture & Equipment	Motor Vehicles	Small Tools	Land Reclamation	Totals
	Kshs.000	Kshs.000	Kshs.000'	Kshs.000'	Kshs.000'	Kshs.000'	Kshs.000'	Kshs.000'	Kshs.000'
At 1st July 2016	37,910	126,937	68,639	296,489	48,355	429,040	4,096	9,177	1,020,642
Adjustments	-	-	-	-	-	-	-	-	-
Additions	-	1,639	-	21,710	1,102	357	65	-	24,873
Disposals	-	-	-	-	-	(3,400)	-	-	(3,400)
At 30th June 2017	37,910	128,576	68,639	318,200	49,457	425,997	4,161	9,177	1,042,116
Adjustments	-	-	-	-	-	-	-	-	-
Additions	-	448,018	17,595	12,966	235	10,516	72	3,168	492,570
Disposals	-	-	-	-	-	-	-	-	-
At 30 June 2018	37,910	576,594	86,234	331,166	49,692	436,513	4,233	12,345	1,534,686
DEPRECIATION									
At 1st July 2016	-	60,432	65,406	251,921	40,191	386,303	4,017	6,892	815,162
Charge for the year	-	3,407	323	13,256	1,853	10,765	72	457	29,903
Disposals	-	-	-	-	-	(3,366)	-	-	(3,366)
At 30th June 2017	-	63,839	65,729	265,177	42,044	393,702	4,089	7,349	841,699
Charge for the year	-	25,638	2,051	13,042	1,529	10,703	72	999	54,034
At 30th June 2018	-	89,477	67,780	278,219	43,573	404,405	4,161	8,348	895,733
NET BOOK VALUE									
At 30th June 2018	37,910	487,117	18,454	52,947	6,119	32,108	72	3,997	638,584
At 30th June 2017	37,910	64,737	2,910	53,024	7,413	32,295	72	1,828	200,053

Notes to Financial Statements (Continued)

23(c). Capital Work In Progress

Relates to in-complete capital works .

	<u>2018</u>	<u>2017</u>
	<u>Kshs.'000'</u>	<u>Kshs.'000'</u>
Eco House (ADC Chorlim)	1,022	1,022
Eco House (ADC Nai)	294	292
Eco House (ADC Olingantongo)	7,182	1,152
Eco House (ADC Sabwani)	20,904	1,055
Maize Shade (ADC Feedmill)	1,157	1,157
Dam ans Store (ADC Suam Orchards)	22,057	21,526
Katuke	9,585	13
Kitchen (ADC A I Centre)	233	233
Bull Station (ADC Sabwani)	215,085	510,390
Bull station (Nitrogen plant)	2,101	-
Shade (ADC Engineering Services)	266	266
Office Block (ADC Molo)	2,889	2,851
Japata	489	-
Sirikwa	5,111	5,111
Seed Unit(Construction of a Godown)	8,549	8,549
	<u>296,925</u>	<u>553,618</u>

24. Investments

	<u>2018</u>	<u>2017</u>
	<u>Kshs.'000'</u>	<u>Kshs.'000'</u>
Opening balance at 1 June 2016	<u>467,283</u>	<u>467,283</u>
Balance as at 30th June 2017	<u>467,283</u>	<u>467,283</u>
Balance as at 30 June 2018	<u>467,283</u>	<u>467,283</u>

25. Biological Assets

	<u>2018</u>	<u>2017</u>
	<u>Kshs.'000'</u>	<u>Kshs.'000'</u>
Beef Cattle	392,449	324,565
Dairy Cattle	167,731	132,229
Pigs	690	1,052
Sheep	16,231	13,835
Goats	9,687	10,129
Horses	590	590
Dogs	66	61
Donkey	-	75
Poultry	290	65
Breeding Bulls	1,033	-
Crops	818,183	989,033
TOTAL	<u>1,406,950</u>	<u>1,471,633</u>

26. Trade and other payables from exchange transactions

	Consolidated		Company		Lands Ltd	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>Kshs'000</u>	<u>Kshs'000</u>	<u>Kshs'000</u>	<u>Kshs'000</u>	<u>Kshs'000</u>	<u>Kshs'000</u>
Trade Creditors	895,515	744,162	895,515	744,162	-	-
Non-trade creditors	453,186	523,751	450,506	521,311	2,680	2,440
	<u>1,348,701</u>	<u>1,267,914</u>	<u>1,346,021</u>	<u>1,265,474</u>	<u>2,440</u>	<u>2,440</u>

Notes to Financial Statements (Continued)

27. Current Account- Lands Ltd

This is a control account that reflects the financial transactions between the Subsidiary Company (Lands Ltd) and Its Parent Company ADC (Agricultural Development Corporation).

28.(a) Borrowings	2018	2017
(a)Total current borrowings	Kshs 000	Kshs 000
AFC Livestock Loan	-	6,013
AFC Crop Seasonal Loan	115,815	104,016
	115,815	110,030

AFC Livestock Loan

Agricultural Finance Corporation advanced ADC Kshs 120,000,000 to assist in Its operations. The Loan was payable in 12 Months at an interest rate of 12% per annum payable in a single bullet payment of Kshs. 134,403,600. The Loan was secured by LR No. 5532

AFC Crop Seasonal Loan

Agricultural Finance Coporation granted the ADC 150,000,000 Gurated by Corporation land L.R No.5532 Trans Nzoia and repayable within a period of 12 Moths at an interest rate of 12%. The Loan was to be services through the Coporation's share of rent fromDevelopment House which is Jointly owed by the two Corporations.

28 (b)Total non-current borrowings	2018	2017
	Kshs 000	Kshs 000
KCB TERM LOANS	233,853	230,469

KCB Term Loan

In 2014 the Corporation restructured its facilities held with KCB by amulgamating them into a term loan payable in 48 months at an interest rate of Bank's base rate plus 2%. The loan was secured by L.R No. 2993, L.R No. 5722, L.R No.5345/1 and L.R No. 9078/2 of the Corporation's Land Parcels

29. Restated Grants

Refer to note 20

	Restated
	2017
Audited	2,487,330
Less	
Deffered Grants	(70,000)
Restated balance	2,417,330

Notes to Financial Statements (Continued)

Restated Grants (cont)

	Restated		Audited
	2018	2017	2017
	<u>KShs'000'</u>	<u>KShs'000'</u>	<u>KShs'000'</u>
Government of Kenya	2,539,499	2,417,330	2,487,329
British Government	67,582	67,582	67,582
ASARECCA	1,898	1,898	1,898
NIB	11,700	11,700	11,700
UNDP	139,827	139,827	139,827
Grants to ADC	2,760,506	2,638,337	2,708,336
Grants to subsidiary	24,280	24,279	24,280
ADC and Subsidiary	2,784,786	2,662,616	2,732,616

The Corporation received Kshs. 137,500,000 from the Ministry of Agriculture Livestock and Fisheries state department of Livestock for Off-take program, out of this the Corporation received instructions from the Ministry to pay a total of Kshs. 15,330,000 to indentified farmers who had lost their livestock.

30. Capital Reserves

Reserves comprise the General Reserve Fund taken over from Agricultural Settlement Fund - 1976 net of Government Trust Fund on farms taken over from Agricultural Settlement Trust.

31. Revaluation Reserve

Revaluation reserves relates to a revaluation surplus on two farms LR. Nos. 5337,5345,8855/3,0297, 5345/2,5345/3,8855/R in ADC Ol'ngatongo Farm and L.R No. 2043/2 ADC Sabwani

32. Related Party Transaction

I) Board members of the Corporation

	Consolidated		Company		Lands	
	2018	2017	2018	2017	2018	2017
	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>
Emoluments	5,142	9,472	4,594	9,080	548	392
Milage/Travelling	2,378	3,222	2,120	2,911	258	311
Insurance	-	394	-	394	-	-
Airtime	-	740	-	740	-	-
Total	7,520	13,828	6,714	13,125	806	703

ii) Key Management

	Consolidated		Company		Lands	
	2018	2017	2018	2017	2018	2017
	<u>Kshs'000'</u>	<u>Kshs'000'</u>	<u>Kshs'000'</u>	<u>Kshs'000'</u>	<u>Kshs'000'</u>	<u>Kshs'000'</u>
Gross Salary	23,701	20,692	23,701	20,692	-	-
Pension	213	193	213	193	-	-
Gratuity	3,144	3,104	3,144	3,104	-	-
	27,058	23,989	27,058	23,989	-	-

33. Contingent Liabilities

There are certain pending legal litigations brought against the Corporation as at 30th June 2018, among them is case number HCC No.156 where the Corporation was held jointly liable with the Office of the Attorney General and ordered to pay Kshs. 100,000,000 in damages. However, the case was appealed and we await the outcome of the appeal. In Addition, the Corporation has not accrued Kshs. 67,502,492 being fee note from one of its advocate J.J Chesaro & Co. Adv being fees charged. Due to an objection raised on the value of land in question upon which the fee note was computed. In the opinion of the directors and after taking appropriate legal advice, the outcome of these legal claims will not result to any significant loss beyond the amounts provided for in these financial statements and will not materially affect the Corporation's financial ability.

34. Un Accrued Debtors

The Government in execution of Galana Kulalu Food project stopped any operation for these leases. This brought uncertainty on collectability of revenue amounting to Kshs 273.6M since some of the lessees went to court to protest the decision and sued for breach of contract. The management considered it not prudent to continue accruing revenue from these leases until these uncertainties are resolved.

35. Events after the reporting period

There are no material non-adjusting events after the reporting date.

XIX. 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.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Responsible officer	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.1	<p>Reposessed Land</p> <p>i) As reported in the previous year, property, Plant and equipment balance of 684,283,000 as at 30th June 2017 includes farms managed by the Corporation valued at Kshs. 37,910,000. These farms, referred to as ADC Private Forest Ndabibi L.R. Nos 7281/3& 20591/86, relates 4000 acres of land reposessed from allottees who had been unable to pay the allotment fees. In addition, land L.R. 20591/86 in Ndabibi and the parcel in Molo do not have ownership documents including title deeds, while LR 7281/3 has been encroached on by squatters although the Corporation has secured the title deed. Further, and according to information available, the process of exchanging 700 acres in Molo with 1,000 acres of the Corporation's land at Ndabibi had not been finalized as at 30th June 2017. In the absence of title deeds for the parcel of land in Molo and in Ndabibi, it has not been possible to confirm their ownership.</p>	<ul style="list-style-type: none"> <i>In the 18th report on implementation of PIC Committee recommendation on the accounts, of State Corporations, it was recommended that the Inspectorate of State Corporation investigate the process of exchange of the two farms Ndabibi and Molo. The corporation is still awaiting this report to enable completion of the transfer of property and issuance of title deed.</i> <i>The Corporation in collaboration with the Government of Kenya and the County Government of Nakuru have agreed to establish a police post in the farm in order to address the issue of Security and squatters and enable the Corporation to utilize the land</i> <i>In order to enhance transfer and processing of titles we have launched deed plan for LR No. 20591/119 through our lawyer</i> 	Corporation's Secretary	Not resolved	30 th June 2019

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Responsible officer	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>ii) Home Farm Land As reported also in the previous year, the Corporation land's net book value of Kshs. 521,513,000 as at 30th June 2017 disclosed under Note 22(a) excludes the value of land L.R No. 10668 measuring about 2,908.42 acres known as Home Farm. Further, the Corporation does not have ownership documents to this parcel of land. It is also not clear and the management has not explained how the Home Farm parcel of land was allocated to private developers in year 1994 and the effects on the operations of the Corporation in fulfilment of its mandate</p>	<p><i>Cheptumo and Company Advocates for certificate of Title to the Ministry of Lands & Housing. This Certificate of Title will then be transferred to the owner of Asante Farm in exchange for the title of Asante Farm. The issue of Home Farm LR10668 is under investigation by the Ethics and Anti Corruption (EACC). The Corporation is awaiting the conclusion of the same.</i></p>	Corporation's Secretary	Not Resolved	30 th June 2018
	<p>ii) Garissa Irrigation Project Land The Property, plant and equipment balance of Kshs.684,283,000 as at 30 June 2017 still exclude the value of land measuring 319.4 hectares located in Garissa municipality whose value has not been determined, despite a disclosure under Note 19 to the financial statements for 2015/2016 that the unit's assets were merged and included in the Corporation's financial</p>	<p>By the Time this land was handed over to the Corporation, there was no value attached to it. However, the Corporation has since secured a title deed and efforts are being made to have it valued and included in the Corporation's books</p>	Corporation Secretary	Not Resolved	30 th June 2019

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Responsible officer	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	statements. In view of the foregoing, the completeness and accuracy of property, plant and equipment balance of Kshs. 684,283,000 cannot be ascertained				
2	<p>Capital Work-in-progress As reported in the previous year and as highlighted under Note 22(c) to the financial statements, the capital work-in-progress balance of Kshs. 553,618,000 as at 30 June 2017 includes a construction project at Suam Orchard in Kitale valued at Kshs. 9,978,000 that was started in the year 2006. In addition, the capital-work-in Progress includes an amount of Kshs. 4,899,287 relating to projects that have remained idle for the last five (6) years. In the Circumstances, I am unable to confirm the carrying value of the</p>	<p>The corporation has had financial constraints to facilitate completion of these projects. However, efforts have been made to complete most of the projects especially the Eco-houses to make them habitable and we are in the process of evaluation for possible issuance of completion certificate to facilitate capitalization.</p>	<p>Head of Business Development)</p>	<p>Not Resolved</p>	<p>30st June 2019</p>

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Responsible officer	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	capital works in progress reflected in the financial statements of Kshs. 553,618,000 as at 30 th June 2017.				
3.	<p>Investments</p> <p>The investment balance of Kshs. 467,283,000 reflected in the statements of position as at 30th June 2017 includes amounts relating to investments in shares held in chemelil Sugar Co. Ltd Kshs. 203,592,000, Development House Kshs. 90,251,000, Muhoroni Sugar Company Kshs. 41,342,000, Kenya Co-operative creameries Kshs 4,151,000, Kenya Grain Grower's Co-op Union Kshs.1,404,000, Kenya Seed Company Ltd Kshs. 114,014,000, Pyrethrum Board of Kenya Kshs 36,000, Kenya Planters' Co-op Union Kshs.31,000 and Agro-Chemical and Food Ltd Kshs. 16,900,000 which were acquired between 1975 and 1995. Information available indicates that Muhoroni Sugar Company, Kenya Grain Growers Co-op Union with investments totalling Kshs. 42,777,000 are either in receivership or liquidation. In addition,</p>	<p>As disclosed in the financial statements under note 35. The Corporation did not provide for dividend due to a change in dividend policy by Kenya Seed Company as the company pays dividend as a percentage of profits for the year contrary to the earlier policy where the company adopted a fixed dividend policy.</p> <p>The Corporation upon information that Kenya Co-operative creameries is now wholly owned by the Government as the New KCC did a 100% provision for amortization of its share in KCC hence writing them off.</p> <p>For the other companies the corporation is hopeful that some of the companies that have since been restructured will turn around</p>	Financial Controller	Not Resolved	30 th June 2019

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Responsible officer	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	Chemelil Sugar Company, Kenya Planters Co-op Union and Agro Chemicals & Food Company with the Corporation's investments totalling Kshs.220, 492,000 have been making losses and have not paid dividend for a considerably long time. The value of the investments in these companies is therefore doubtful and may not be recovered. However, no provision has been made in the financial statements for the diminution in value of the investment.				
4.	<p>Biological assets</p> <p>i) Valuation</p> <p>The consolidated statements of financial position reflects biological assets valued Kshs. 1,471,633,000 as at 30 June, 2017. Included in this figure is an amount of Kshs. 989,033,000 relating to crops as disclosed in Note 24 to financial statements. It was noted that the value 'special crops-plantations' as at the end of the year under review remained the same at Kshs. 772,336,240 as was similarly reported in the financial year 2015/2016. No valuation report was provided for audit to confirm how the value of kshs. 772,336,240</p>	The Corporation has been valuing this class of special Crops- Plantations which is mainly trees based on the age of these trees. However, and to conform with the provisions of IAS 40, we sort guidance from the Kenya Forestry Service(<i>appendix</i>) on the best practice in carrying out this exercise unfortunately though they were willing to guide on the same it was not			

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Responsible officer	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>was arrived at. Consequently, the accuracy of valuation of 'special crops-plantations' during the year under review cannot be confirmed.</p> <p>ii) Purchase of livestock Information available indicate that the Corporation received an amount of Kshs. 250,000,000 from the government during the year under review for purchase of livestock as a mitigation to the pastoralists against loss due to drought. Schedules provided for audit shows that the Corporation acquired 4008 animals at a total cost of Kshs. 105,608,000. After effecting the loss of 60 animals and deaths of 770 animals, the management reported a net value of Kshs. 86,714,000 for animals. However, this amount is not reflected in the value of biological assets of Kshs 1,471,633,000 as at 30 June, 2017. Consequently, the value of biological assets of Kshs. 1, 471,633,000 reflected in the financial statements is not completed or fairly stated.</p>	<p>possible to do it within the year under review. It is the management view that one year values would not materially affect the fairness of its financial statements.</p>			

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Responsible officer	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
5.	<p>Trade and other payables</p> <p>i) The consolidated statement of financial position as at 30 June 2017 reflects trade and other payables balance of Kshs. 1,267,914,000, which includes trade and non-trade creditor figure of Kshs.744,162,000 and Kshs. 523,751,000, respectively. As reported in the previous years, the non-trade balance of Kshs. 523,751,000 includes audit fees totaling Kshs. 18,888,080 that have been outstanding since 1995. No satisfactory reason has been provided for failure to pay the fees.</p> <p>ii) The non-trade creditors balance also includes unremitted statutory deductions of Kshs. 21,842,832, Kshs. 26,932,145, Kshs. 57,934,238 and Kshs. 60,454,532 for Pay As You Earn (PAYE), National Social Security Fund (NSSF), Pension and Agdeco society deductions respectively, dating back to 1998.</p> <p>iii) The trade and other payables balance for the year then ended, like in previous years, includes an outstanding balance of Kshs.267,279,416, payable</p>	<ul style="list-style-type: none"> • <i>These outstanding debt and liabilities have accumulated over the years when the Corporation was financially constrained. The Corporation has commenced clearing the debts on installments as follows:-</i> • <i>National Social Security Fund (NSSF)This relates to unremitted deductions, with special and statutory and penalties charged thereon. In 2014/15 the Corporation entered into a repayment arrangement with NSSF in which Kshs. 1.1m is paid on a monthly basis</i> • <i>Pension SchemeThis relates to un-remitted pension deductions to ADC Pension Scheme. A repayment arrangement has been agreed with Zimele Assets Managers – who are the Scheme Administrators in which Corporation is paying Kshs. 300,000 towards the arrears while remitting the current deductions.</i> • <i>On Agedco Saving</i> 	Financial Controller	Not resolved	30 th June 2019

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Responsible officer	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>M/S Supplies and Services Ltd in respect to fertilizer supplies. The amount includes Kshs. 112,219,009 being interest charged at the rate of 18% per annum on the number of days in default as at 30 June 2014. Any interest that may be accruing to the account has not been included in these financial statements from 1 July 2014 to date. The matter is still in court.</p>	<p><i>and Credit Society</i></p> <ul style="list-style-type: none"> <i>The Corporation is paying Kshs. 1m to liquidate the outstanding amount in addition to paying the current deductions. For the other creditors, the Corporation continues to make payment on first in first come basis but where it is unable to settle the amount in full due to financial challenges we enter into a repayment program with the creditors in order to ensure continued supply of goods and services</i> 			
6.	<p>Grants Reserves The consolidated statement of financial position reflects a balance of Kshs. 2,732,616,000 (2015/2016 –Kshs. 1,742,616,000) under Note 28 to the financial statements, the amount includes grants from various sources. During the year, the amount of grant from the Government of Kenya increased by Kshs. 990,000,000. The amount of increase includes Kshs. 50,000,000 in respect of drought mitigation grant recorded but not received as of 30 June 2017. Further, there is no</p>	<p><i>During the year the corporation had been allocated Kshs 300,000,000 out of which Kshs. 50,000,000 had not been received by the end of the year. Efforts are being made to have the same remitted by the Ministry.</i></p>	Chief Accountant	Resolved	30 th June 2018

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Responsible officer	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>documentary evidence that this amount will be received in future and consequently it is not possible to confirm the validity of the grant receivable to the extent of Kshs. 50,000,000. In addition, the comparative figure for grant reserves of Kshs. 1,742,616,000 include an amount of Kshs. 31,414,000 that was not supported. Consequently, the accuracy and completeness of the grant reserve balance of Kshs. 2,732,616,000 reflected in the financial statements cannot be confirmed.</p>				
7	<p>Receivables from exchange Transactions i) As reported in the previous year, trade and non-trade receivables from exchange transactions balances of Kshs. 394,087,000 and Kshs. 194,150,000, respectively as at 30 June, 2017 and disclosed under Note 19 to the financial statements included an amount of Kshs. 9,859,415 that has remained outstanding for a long period of time dating back to 1980. In addition, the management has not provided the analyses of the specific provision of Kshs.52,499,000 for bad and doubtful debts for</p>				

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Responsible officer	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>audit review. Further, the basis for determining the general provision of Kshs.4,909,000 has not been explained.</p> <p>ii) Included in the non-trade debtors figure of Kshs.194,150,000 is an amount of Kshs. 7,226,797 (2015/2016 –Kshs. 3,782,739) described as lost cash. The current financial year includes an amount of kshs. 2,065,000 that has been attributed to loss of imported potato seeds that were rotten on arrival and further loss of Kshs. 1,150,900 worth of potatoes that was destroyed in a fire. It is not clear why the Corporation had not insured the consignment to mitigate against such loss. Further, an amount of Kshs.4,507,635 described as provision for obsolete items/loss on investments' represents.</p> <p>iii) In addition, the non-trade debtors include deferred grants of Kshs. 70,000,000 receivable from the parent ministry. However, no documentary evidence was provided during the audit to indicate that the amount would be received in the foreseeable future.</p>				

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Responsible officer	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>ii) As reported in the previous year, verification of records in 2015/2016 revealed that the lease rental receivables totalling Kshs. 214,458,668 had not been included in the financial statements for 2016/2017 to record this omission.</p> <p>In view of the above, it has not been possible to confirm the completeness, accuracy and recoverability of receivables from exchange transactions and non-trade transaction figures of Kshs. 394,087,000 and Kshs. 194,150,000 respectively</p>				
8.	<p>National Livestock Project The consolidated statement of financial position and as disclosed under Note 20 to the financial statement reflects an amount of Kshs. 32,412,000 in respect of National Livestock project account that is claimable from the Ministry Corporation. The project started in 2006 when the Government granted ADC Kshs 198,000,000 to purchase livestock under the emergency off take programme in drought stricken arid areas. The Corporation incurred costs totalling Kshs 32,412,000 during the year on</p>				

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Responsible officer	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>maintenance and daily running of the project operation. The following unsatisfactory matters have also been note:</p> <ul style="list-style-type: none"> i) The project has been reporting losses over the years while a similar Livestock enterprise under ADC is ever reporting profits. ii) The current account balance of Kshs. 32,412,000 is not supported by demand notes to the Ministry of Agriculture and as such it is not possible to confirm the debt. <p>The Project did not prepare financial statements during the year, and as a result, it is not clear how operating overheads were apportioned between ADC and the National Livestock Project. In addition, the state of financial performance and financial statements</p>				
9.	<p>Rental Revenue from Facilities The consolidated statement of financial performance reflects an amount Kshs. 89,766,000 under rental revenue from facilities for the year ended 30 June, 2017, which is a drop of Kshs. 97,859,000, from last year's figure of Kshs.</p>	<p><i>The Observed is attributed to lease rentals in Galana ranch for which were suspended due to the ongoing Galana Kulalu</i></p>			

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Responsible officer	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	187,625,000. The management attributes the shortfall to the stopped leases in Galana by the Government to create space for Galana/Kulalu Food Security Programme. Evidence available indicate that the lessees are still occupying the land and it is therefore not clear why the management has stopped accruing and receipting the income.	<i>Food project by the Government. Some of the lessees have gone to Court sighting this interference and we await the outcome of these cases. A disclosure note has been made in the financial statement to this effect.</i>			
10.	<p>Management Fees</p> <p>The consolidated statement of financial performance reflects an amount of Kshs. 1,634,000 in respect of management fees. This amount is attributed to an agreement entered into between Agricultural Development Corporation (ADC) and National Disaster Management Authority (NDMA) on 'Commercial Destocking for Drought mitigation on 8 March 2017. According to clause 5 on Costs and Payments, the Corporation was to receive Kshs. 19,136,867 on signing of the agreement. This amount was to be used for purchase, translocation and managing 1,000 heads of cattle for three months and a further Kshs. 38,273,733 thereafter for the additional 2,000 heads of cattle. ADC was to be composed at</p>				

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Responsible officer	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>Kshs. 30/= per cow per day as management fees.</p> <p>Examination of the Corporation documents did not disclose details of amount received from this agreement and how it was applied.</p> <p>In view of the foregoing, the completeness and accuracy of the management fee figure of Kshs. 1,634,000 as at 30 June 2017 cannot be confirmed.</p>				
11	<p>Loss of Fertilizer</p> <p>As Reported in the previous years, the Corporation lost a sum Kshs. 24,447,500 through fake bank deposit slips in respect of sale of fertilizer in Eldoret. The fertilizer, which was part of 40,000 bags of imported grade worth Kshs. 111,680,000 had for unclear reasons been stored in a private store in the town.</p> <p>According to information available, the mode of payment was to be either through direct bank deposits where bank slips would be issued and later used for collection of the fertilizer or by bankers' cheques which had to be confirmed before the sale. The Corporation however adopted the direct bank deposits method where and as a result of weak</p>	<p><i>These cases were heard and judgment delivered on 28th April 2011 where the court in its wisdom acquitted the accused persons under Sec. 215 of criminal procedure. The judge Mr. Shiundu in his ruling observed that the burden of prove lies with the prosecution, and that the prosecution did not prove their case against the accused persons beyond reasonable doubt. The investigating officer and a crucial witness in this case were not called in to testify and his evidence/testimony was to produce in court the falsified or forged documents. On the 1st accused Isaack Kiprop Chuma who absconded ADC has been following up the matter</i></p>	Corporation Secretary	Not Resolved	30 June 2018

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Responsible officer	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>controls, fertilizer worth Kshs. 24,447,500 was released before the respective bank deposits had been confirmed. Although the management has indicated that the criminal case opened at Eldoret High court, was decided on and the accused acquitted, a warrant of arrest is still in force for one of the accused acquitted, a warrant of arrest is still in force for one of the accused who absconded during the trail and has not been effected. Consequently, and until the matter has been concluded, the recovery of the loss of Kshs. 24,447,500 remains doubtful.</p>	<p><i>with the Eldoret Divisional C.I.D who has since promised to put in concerted efforts in ensuring that Mr. Isaack who absconded during trail is arrested and thereafter arraigned in court as directed by the judge in his ruling. Attached is a copy of the judgment.</i></p>			
9.	<p>National Livestock Project The statement of financial position and as disclosed under Note 18 to the financial statement reflects an amount of Kshs. 24,280,000 in respect of National Livestock project account that is claimable from the Ministry Corporation. The project started in 2006 when the Government granted ADC Kshs 198,000,000 to purchase livestock under the emergency off take programme in drought stricken arid areas. The</p>	<p><i>The management has engaged the ministry of Agriculture for a way forward on this project. We have proposed the corporation takes over the remaining animals and close the project to enable us include the herd into the corporation assets effectively absorbing the amount owed by the Ministry.</i></p> <p><i>The increase in the value of the herd was due to a change in valuation policy</i></p>	Financial Controller	Not Resolved	30 th June 2018

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Responsible officer	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>Corporation incurred costs totalling Kshs 30,737,434 during the year on maintenance and daily running of the project operation. The following unsatisfactory matters have also been note:</p> <p>iii) The project has been reporting losses over the years while a similar Livestock enterprise under ADC is ever reporting profits.</p> <p>iv) The current account balance of Kshs. 24,466,000 is not supported by demand notes to the Ministry of Agriculture and as such it is not possible to confirm the debt.</p> <p>v) The Project did not prepare financial statements during the year, and as a result, it is not clear how operating overheads were apportioned between ADC and the National Livestock Project. In addition, the state of financial performance and financial statements.</p>	<p><i>where by the animals were valued based on a percentage of the current market prices.</i></p>			
12.	<p>Undisclosed Material Uncertainty The statement of financial position as at 30 June 2017, reflects total current assets of Kshs.</p>				

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Responsible officer	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>1,162,086,000 and a total current liabilities of Kshs. 1,377,944,000 resulting in a negative working capital of Kshs.215,858,000 (2015/2016 – Kshs.891,890,000). The Corporation is, therefore, technically insolvent and its creditors. However, the material uncertainty has not been disclosed in the notes to the financial statements.</p> <p>Peculiar</p>				

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