

REPUBLIC OF KENYA



*Paper laid by
Leader of Majority
Party
Tuesday 7/8/2018
Adan*

OFFICE OF THE AUDITOR-GENERAL



REPORT

PARLIAMENT
OF KENYA
LIBRARY

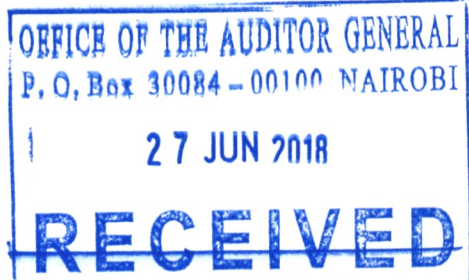
OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
AGRICULTURE AND FOOD
AUTHORITY

FOR THE YEAR ENDED
30 JUNE 2017



AGRICULTURE AND FOOD AUTHORITY

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2017**

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

I.	KEY AUTHORITY INFORMATION AND MANAGEMENT	1
II.	THE BOARD OF DIRECTORS OF THE AUTHORITY	5
III.	MANAGEMENT TEAM.....	8
IV.	CHAIRMAN'S STATEMENT	14
V.	REPORT OF THE DIRECTOR GENERAL	16
VI.	REPORT ON CORPORATE GOVERNANCE	17
VII.	REPORT OF MANAGEMENT DISCUSSION AND ANALYSIS	21
VIII.	CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING	24
IX.	REPORT OF THE DIRECTORS.....	26
X.	STATEMENT OF DIRECTORS' RESPONSIBILITIES.....	28
XI.	REPORT OF THE INDEPENDENT AUDITORS ON THE AFA.....	29
XII.	STATEMENT OF FINANCIAL PERFORMANCE.....	30
XIII.	STATEMENT OF FINANCIAL POSITION.....	31
XIV.	STATEMENT OF CHANGES IN NET ASSETS.....	32
XV.	STATEMENT OF CASH FLOWS	33
XVI.	STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS.....	34
XVI.	NOTES TO THE FINANCIAL STATEMENTS	36
XVII.	PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS	59

I. KEY AUTHORITY INFORMATION AND MANAGEMENT

(a) Background information

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

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

(b) Principal Activities

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

Administer the Crops Act, in accordance with the provisions of these two Acts;
promote best practices in, and regulate, the production, processing, marketing, grading, storage, collection, transportation and warehousing of agricultural and aquatic products excluding livestock products as may be provided for under the Crops Act;

Collect and collate data, maintain a database on agricultural products excluding livestock products, documents and monitor agriculture through registration of players as provided for in the Crops Act and the Fisheries Act;

Be responsible for determining the research priorities in agriculture and to advise generally on research thereof;

Advise the national government and the county governments on agricultural levies for purposes of planning, enhancing harmony and equity in the sector;

Carry out such other functions as may be assigned to it by this AFA Act, the Crops Act, and any written law while respecting the roles of the two levels of Government

AFA developed a Corporate Brand and Identity for the organization. The vision, mission and core values were also developed as below

Vision:

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

Mission:

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

Motto:

“Our Crops, Our Wealth”

Core Values:

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

(c) Key Management

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

Board of Directors
Director General
Management

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2017 and who had direct fiduciary responsibility were:

INTERIM MANAGEMENT COMMITTEE	
NAME	DESIGNATION
Mr. Raphael Lekoolool	Chairman
Mr. Francis Michuki	Member
Ms. Susan Nkatha Kairima	Member
Mr. Julius Nyarotho (Eng.),	Member
Mr. Julius Koros	Member
Mr. David Okoth	Member
Ms. Magdalene Mnene	Member
Ms. Charity Mariene	Alternate Member. State Department of Agriculture
Mr. Joseph Kariuki	Alternate Member. The National Treasury
Ms. Lilian Kieni	Alternate Member. State Department of Lands

MANAGEMENT	
Name	Designation
Alfred Busolo	Interim Director General
Solomon Odera	Interim Head - Sugar Directorate
Grenville Meli	Interim Head - Coffee Directorate
Zakayo Magara	Interim Head - Horticulture Directorate
Raymond Kahindi	Interim Head - Nuts and Oils Directorate
Anthony Mureithi	Interim Head - Fibre Directorate
Chebii Kilel	Interim Head - Food Directorate

Agriculture and Food Authority
Financial Statements for the Year Ended 30th June 2017

Andrew Osodo	Interim Head – Miraa, Pyrethrum and other Industrial Crops Directorate
Elias Kiragu	Interim Head -Finance
Patricia Njeru	Interim Head -Planning, Research and Strategy
Isaac Metto	Interim Head -Internal Audit
Peter Lukoye	Interim Head -Human Resource
Frankie Welikhe	Interim Head –Legal
Christine Chesaro	Interim Manager-Corporate and Communications
Daniel Mbovu	Interim Manager -Supply chain
Amos Mulievi	Interim Manager –ICT

(e) Fiduciary Oversight Arrangements

Audit and finance committee activities

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

Parliamentary committee activities

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

Development partner oversight activities

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

Public Procurement Oversight Authority (PPOA),

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

(f) Agriculture and Food Authority Headquarters

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

(g) Agriculture and Food Authority Contacts

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

(h) Agriculture and Food Authority Bankers

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

(i) Independent Auditors

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




(j) Principal Legal Adviser

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




Agriculture and Food Authority
Financial Statements for the Year Ended 30th June 2017

II. THE BOARD OF DIRECTORS OF THE AUTHORITY



The Board of Directors were appointed through a gazette notice Vol. CXVIII –No.146 dated 25th Nov. 2016 effective 7th November, 2016. The members are as follows:-

Insert each Director’s passport-size photo and name, and key profession/academic qualifications	Provide a concise description of each Director’s date of birth, key qualifications and work experience
 <p>Mr. Raphael Lekolool- Chairman MBA ,University of Wales College of Cardiff, Cardiff Business School, UK</p>	<p>MBA ,University of Wales College of Cardiff, Cardiff Business School, UK</p>
<p>Mr. Francis Michuki B.A Economics & Political Science,</p>	<p>B.A Economics, Political Science, Amherst college University - Massachusetts (USA) (54yrs)</p>
 <p>Ms. Susan Nkatha Kairima Masters in Strategic Management</p>	<p>Masters in Strategic Management (52yrs)</p>
 <p>Mr. Julius Nyarotho (Eng.), BSc Engineering</p>	<p>BSc Engineering (69yrs)</p>

Agriculture and Food Authority
Financial Statements for the Year Ended 30th June 2017

 <p>Mr. Julius Koros Masters – Economics</p>	<p>Masters – Economics</p>
 <p>Mr. David Okoth MBA</p>	<p>MBA (40yrs)</p>
<p>Ms. Magdalene Mnene</p>	<p>MBA</p>
 <p>Ms. Charity Mariene</p>	<p>Msc. Rural Mgt, Bsc, Agriculture</p>
<p>Mr. Joseph Kariuki</p>	<p>Bachelor Degree Economics</p>
<p>Ms. Lilian Kieni</p>	<p>Masters in Urban and Regional Planning.</p>

Agriculture and Food Authority
Financial Statements for the Year Ended 30th June 2017

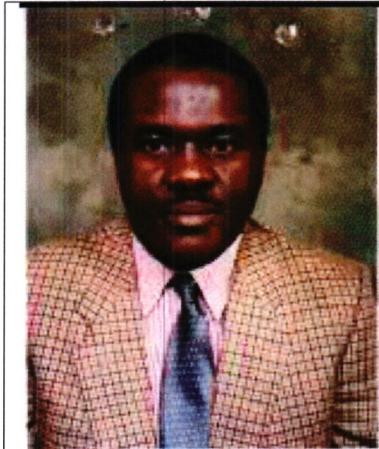
 Alfred Busolo Tabu Interim Director General	Master of Science in Food Industry Management and Marketing and Bachelor of Science in Agriculture.
 Frankie Welikhe Legal Affairs	Bachelor of Laws, Post Graduate Diploma from Kenya School of Law, Post Graduate Diploma from Certified Public Secretaries

Name of the Committee	Members
Finance and Strategy Committee	1. Mr. Francis Michuki 2. Mr. Joseph Kariuki 3. Ms. Susan Kairima 4. Mr. Julius Koros 5. Ms. Charity Mariene
Human Resource Committee	1. Ms. Susan Kairima 2. Ms. Magdalene Mnene 3. Eng. Julius Nyarotho 4. Ms. Lilian Kieni 5. Ms. Charity Mariene
Audit and Governance	1. Mr. David Okoth 2. Eng. Julius Nyarotho 3. Ms. Magdalene Mnene
Technical Committee	1. Mr. Julius Koros 2. Ms. Lilian Kieni 3. Mr. David Okoth 4. Ms. Francis Michuki 5. Eng. Julius Nyarotho 6. Ms. Charity Mariene

III. MANAGEMENT TEAM

During the financial year ended 30th June 2017, the following was the management team who oversaw operations of the Authority:-

<p>Insert each key manager’s passport-size photo and name, and key profession/academic qualifications</p>	<p>Indicate the main area of responsibility – without details</p>
 <p>Alfred Busolo Tabu Master of Science in Food Industry Management and Marketing and Bachelor of Science in Agriculture. Member of Institute for Striga Management in Africa, Institute of Directors, Lead Expert (NEMA), Environment Institute of Kenya and Advisory Board Drought Tolerant Maize for Africa III</p>	<p>Interim Director General</p>
 <p>Samuel O. Ogola Masters of Business Administration (Executive), Bachelor of Science In Agricultural Engineering, Post Graduate Diploma in International Business and Diploma in Business Management. Member of Kenya Institute of Management and Kenya Society of Agricultural Engineers</p>	<p>Interim Head, Tea Directorate</p>



Solomon O. Odera
Bachelor of Science in Business Administration

Interim Head - Sugar Directorate




Grenville Melli
Master of Science in Agricultural Engineering, Bachelor of Science in Agriculture, Diploma in Management

Interim Head - Coffee Directorate









Zakayo M. Magara
Bachelor of Science, Agriculture




Interim Head - Horticulture Directorate

 <p>Raymond M. Kahindi Masters in Agricultural Engineering, Bachelor of Science in Agricultural Engineering</p>	<p>Interim Head - Nuts and Oils Directorate</p>
 <p>Anthony G. Mureithi Masters in Agricultural Economics, Bachelor of Science in Agriculture and Diploma in Agriculture</p>	<p>Interim Head - Fibre Directorate</p>
 <p>Chebii Kilel Master of Arts in Project Planning & Management, Bachelor of Science in Agriculture</p>	<p>Interim Head - Food Directorate</p>

Agriculture and Food Authority
Financial Statements for the Year Ended 30th June 2017

 <p>Andrew O. Osodo Masters in Business Administration, Bachelor of Laws, Post Graduate Diploma in Law, registered member of ICPSK and advocate of the High Court</p>	<p>Interim Head - Pyrethrum and other Industrial Crops Directorate</p>
 <p>Elias K. Kiragu MBA (Finance), BBA (Accounting), Member ICPAK</p>	<p>Interim Head -Finance</p>
 <p>Patricia W. Njeru Master of Economics. Bachelor of Science (Economics), Graduate Diploma in Resource Economics</p>	<p>Interim Head -Planning, Research and Strategy</p>

 <p>Isaac C. Metto Executive Master of Business Administration, Bachelor of Commerce (Accounting). Member of Institute of Internal Auditors.</p>	<p>Interim Head -Internal Audit</p>
 <p>Peter L. Lukoye Masters in Business Administration, Bachelor of Arts, Member of Institute of Human Resource Management and Kenya Institute of Management</p>	<p>Interim Head -Human Resource & Administration</p>
 <p>Frankie W. Welikhe Bachelor of Laws, Post Graduate Diploma from Kenya School of Law, Post Graduate Diploma from Certified Public Secretaries. Registered advocate of the High Court.</p>	<p>Interim Head –Legal</p>

 <p>Christine Chesaro Yebei Masters in International Relations, Bachelor of Arts in French & History, Post Graduate Diploma in Public Relations Management</p>	<p>Interim Manager-Corporate Communications</p>
 <p>Daniel K. Mbovu Bachelor of Commerce in Marketing, Diploma in Purchasing & Supplies Management and Member of Kenya Institute of Supplies Management</p>	<p>Interim Manager -Supply chain</p>
 <p>Amos M. Mulievi Masters in Information Systems, Bachelor of Education (Mathematics), Post Graduate Diploma in Computer Science</p>	<p>Interim Manager –ICT</p>

IV. CHAIRMAN'S STATEMENT

The reforms in the Agricultural Sector were started in 2003 with the formulation of the Economic Recovery Strategy for Employment and Wealth Creation (ERS) and the ten year Strategy for Revitalization of Agriculture (2004-2014). This culminated in the formulation of three Acts of Parliament:

- Agriculture and Food Authority Act, 2013;
- Crops Act, 2013;
- Kenya Agriculture and Livestock Research Act, 2013 (KALRO Act, 2013) and:
- Statute law (Miscellaneous Amendment) Act 2016 dated 26/4/2016

The AFA Act consolidates the laws on the regulation and promotion of Agriculture and makes provision for the respective roles of the National and County Governments in agriculture and related matters, in line with the provisions of Part 2 and Part 1 of section 29 of Fourth Schedule to the Constitution of Kenya. While the National Government shall be responsible for agricultural policy and for assisting the county governments on agricultural matters, each county is responsible, for agricultural matters within its jurisdiction. On the other hand, Crops Act 2013 consolidated various statutes and repealed a number of statutes relating to crops sub-sector to provide for enhanced productivity, growth and development by improving the investment climate and efficiency of agribusiness through facilitative regulation, development and promotion services.

The implementation of the three Acts of Parliament necessitated formation of a sector-specific Task Force to offer advice to the Cabinet Secretary and to ensure that operations of the affected institutions were not interrupted, until appropriate operational structures for the merged institution were put in place. The AFA Interim Management Committee (IMC), was therefore gazetted on 28th February, 2014.

The commencement of the Crops Act, 2013 was effected vide the gazette notice no.110 of 1st August 2014, effectively repealing the 10 statutes and 8 institutions that previously existed. The Authority was inaugurated on 8th August 2014 by the Cabinet Secretary Ministry of Agriculture Livestock and Fisheries.

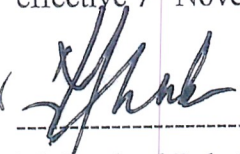
The Directorates which were formed are:

1. Coffee Directorate
2. Food Crops Directorate
3. Fibre Crops Directorate
4. Horticultural Crops Directorate
5. Nuts and Oil Crops Directorate
6. Miraa, Pyrethrum and other Industrial Crops Directorate
7. Sugar Directorate
8. Tea Directorate

Agriculture and Food Authority
Financial Statements for the Year Ended 30th June 2017

In addition, the Commodities Fund was also established to support the development and promotion of relevant crops through access to credit.

The Board of Agriculture and Food Authority has operated under Interim Management Committee effective 7th November, 2016

SA 

Mr Raphael Lekool
Chairman of the Board

V. REPORT OF THE DIRECTOR GENERAL

Agriculture contributes 25 percent of the annual GDP of the Kenyan economy, accounting for 75 percent of the workforce. The country's major agricultural exports are tea, coffee and horticulture. Kenya is the world's leading exporter of black tea and cut-flowers.

Agriculture and Food Authority was established as a State Corporation by the Agriculture and Food Authority Act No. 13 of 2013 as part of the reforms in the Kenya Agriculture Sector to improve efficiency and effectiveness of service delivery. The role of the Authority is to Regulate, Develop and Promote Scheduled Crops value chains for increased economic growth in Kenya.

Under the Agriculture Food Authority Act the following institutions were abolished: Coconut Development Authority, Kenya Sugar Board, Coffee Board of Kenya, Horticultural Crops Development Authority, Pyrethrum Board of Kenya, Cotton Development Authority and Kenya Sisal Board.

They now function as Directorates of Agriculture and Food Authority namely: Coffee Directorate, Horticultural Crops Directorate, Nuts and Oil Crops Directorate, Pyrethrum and Other Industrial Crops Directorate, Sugar Directorate, Fibre Crops Directorate, Tea Directorate and a new Food Crops Directorate. The Directorates provide AFA's core functions of: Technical Services, Enforcement and Compliance, Market Development and Trade Advisory Services.

AFA commissioned Deloitte Consulting Limited to carry out job evaluation, review the Authority's organisational structure and staff rationalization to enable the Authority to appropriately place employees in line with their qualifications, harmonize terms and conditions of service for all staff in the merged organisation. The Ministry of Agriculture, Livestock and Fisheries and AFA Board approved and adopted recommendations of the report and AFA is currently implementing the report.

The previous agricultural boards retained their office service points to avoid disruption of service delivery to stakeholders during the merger. However, AFA is now consolidating its Directorates under one-stop-shop offices in all the regions the countrywide to create synergy, ease of business end improved service delivery to stakeholders.



.....
ALFRED BUSOLO TABU
INTERIM DIRECTOR GENERAL

VI. REPORT ON CORPORATE GOVERNANCE

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

The Board's Charter

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

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

Process of Appointment of Chairperson and Board Members

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

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

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

Succession/Term Limits

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

The Roles and Functions of the Board

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

The Roles and Functions of the Board included the following;

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

Agriculture and Food Authority

Financial Statements for the Year Ended 30th June 2017

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

- i. Audit, Risk and Governance Committee;**
- ii. Human Resource Committee**
- iii. Finance and Strategy Committee.**
- iv. Technical Committee**

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

Induction and Training and member performance

Following its appointment in November 2016 the Board was formally inaugurated by the Cabinet Secretary for Agriculture, Livestock and Fisheries on 9th December 2016. Thereafter, the Board underwent an induction on 21st and 22nd December 2016. During the induction, the Board members were taken through the genesis of the Authority. They were also given an overview of the organization. In order to update and enhance their skills the Board has also undergone several trainings such as Mwongozo Induction training which was carried out by the State Corporations Advisory Committee (SCAC). The Audit Committee of the Board also underwent a training on 18th – 20th May, 2017

The Board has continued to provide strong leadership to the Authority and the aboard members continue to show great commitment and enthusiasm in undertaking their functions. The Board having been appointed in November 2016 the evaluation of each member's performance will be undertaken at the completion of one year in November 2017 during the next financial year.

Conflict of Interest

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

Board Remuneration

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

Ethics and Conduct and Governance Audit

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

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

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

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

VII. REPORT OF MANAGEMENT DISCUSSION AND ANALYSIS

In June 2016, the Cabinet Secretary for Agriculture Livestock and Fisheries by order of Gazette Notice No. 88 dated 9th June 2016 scrapped Sugar and tea levies which funded most of the projects in Sugar and Tea sub-sectors. In this regard, the projects were scaled down as the matching grant from the Government was inadequate to finance the projects such as Sugar Pilot irrigation, Fertilizer subsidy, Factory rehabilitation, and Cane Testing Unit, as well as Tea Research activities and Common User Facility. Lack of adequate financing for these projects has significantly affected production of cane while there has been minimal research activities on tea. However, the year, civil works and installation of nine (9) CTUs were completed in sugar mills of Chemelil, Muhoroni, Kibos, Mumias, Butali, Sukari, Transmara, Kwale Sugar and West Kenya. In the other sub-sectors apart from Sugar and Tea projects undertaken included National Horticulture Traceability System whose objective is to enhance traceability of horticulture produce to the source, link data relating to fresh produce from the point of production through transport and processing in Kenya and subsequent distribution to local and international markets in order to enhance the market access for Kenyan horticultural produce.

The other key activities undertaken during the financial year were in accordance with the Authority's mandate on Regulation and Compliance, Technical and advisory as well as Market Research and Development. Market Research and Development activities were the most funded and these included Generic Promotion; Market Research & development; Subscriptions to Associations; International conference; value addition promotion; and market registration. The activities constituted bulk of the funding on core mandate owing to the fact that most of the markets for scheduled crops are international and are widespread to many countries. There was increased funding on Market Research & development compared to the previous year, as market linkages for export of Kenyan products increased from twelve to twenty nine. During the financial year, AFA conducted market linkages in the U.A.E, China Germany, North America, Netherlands South Korea, Dubai Poland, Egypt, Japan, Russia and IFTX in Nairobi and participated in bilateral trade talks with Turkey by presenting a position paper on tea trade between Kenya and Turkey. In addition AFA through HCD linked 13 companies to MACDRUIT and Cermac in a Fruit Logistica meeting in Nairobi in February 2017.

This is expected to enhance Agribusiness and market access of agricultural products to the export markets thereby generating more foreign exchange to the country and earnings to the growers.

Technical and advisory services undertaken during the year included procurement and distribution of coffee seedlings, production of sisal plantlets via Meristematic Tissue Culture, capacity building forums on management of harmful organism in horticultural crops (Fruit flies, False scolding Moth); consultative forum to identify horticultural research priority areas on harmful organism to the crops; promoting new technologies on the use of beneficial organisms for passion fruits in different regions; promoting high value crops in five counties; undertaking capacity building sections on County agricultural staff; undertaking sensitization forums on avocado harvesting guide for export avocado varieties and upgrading crop value chains for cashew nuts, Rhodes Grass & Sun flower. During the period, AFA through Coffee Directorate procured and issued 210,980 coffee seedlings to farmers in nine (9) coffee growing counties namely; Homa Bay (10,500), Machakos (30,000), Meru (30,000), Bungoma (30,000), Baringo (30,000), Narok (20,000), Bomet (20,000) and Nandi (20,480) under the Integrated Coffee Productivity Initiative (ICPI).

Through this initiative farmers purchased additional 7,000 coffee seedlings bringing the total plantings to 217,980.

AFA contracted Kenya Agriculture and Livestock Research Organization (KALRO) biotechnology center to produce 20,000 sisal seedlings through meristematic tissue culture during the quarter. The seedlings will be distributed to smallholder farmers for planting in the October-November short rains season.

Capacity building of farmers and County field officers on management of Fruit fly on Mangoes were undertaken in Machakos, Kitui, Embu, Kisumu counties while the management of fruit fly on Avocado was done in Kisii. Management of false codling Moth in capsicum was conducted in Meru and Kajiado, respectively.

With a view to Strengthening technological and innovation capabilities, AFA through Horticultural Crops Directorate promoted high value crops in five (5) counties namely Upper Kathiani (Machakos) for apples, Kerio Valley for grapes, Kericho –Soin Sigowet for grapes , Pears for Mt. Elgon – Bungoma and Sagana scheme (Nyeri) for garlic.

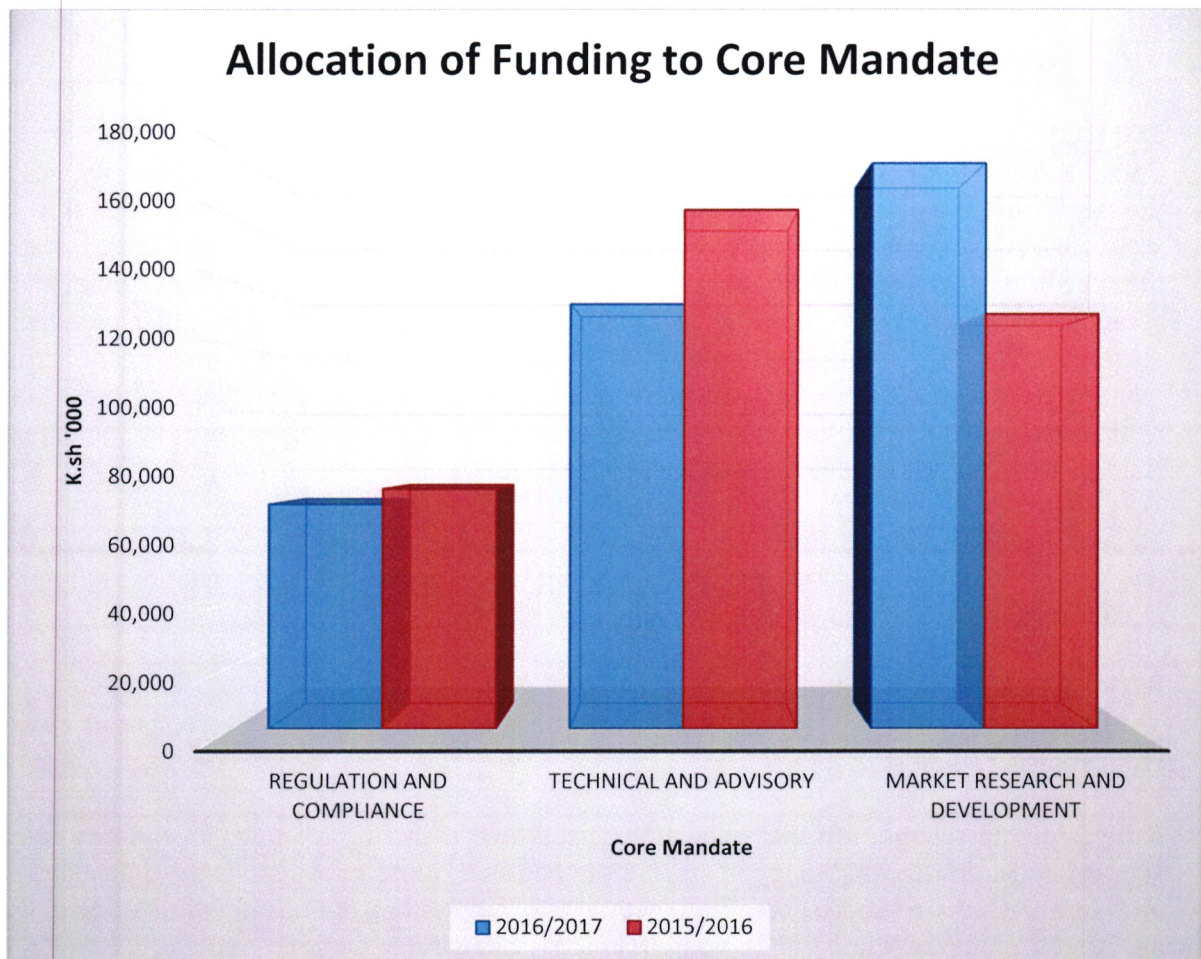
Technical and advisory services were also significantly funded, but at lower levels compared to the previous year due to less activities in Seeds/seedling supply and management in Pyrethrum and cotton. Seeds/seedling supply is currently being undertaken in collaboration with the county Governments and Research Institutions.

Regulation and Compliance activities undertaken during the financial year included Registration & licensing; Inspections & Surveillance; Development and Review of Standards; Quality analysis; Stakeholders Fora; International Fora/Meetings; Consultancies; Industry data collection and forecasting/ e portal. Regulation and Compliance activities were the least funded mandate of the Authority with the funding declining compared to the previous year owing to gradual ceding of the mandate to the counties in accordance with the Constitution and increased adoption of industry self-regulatory mechanisms.

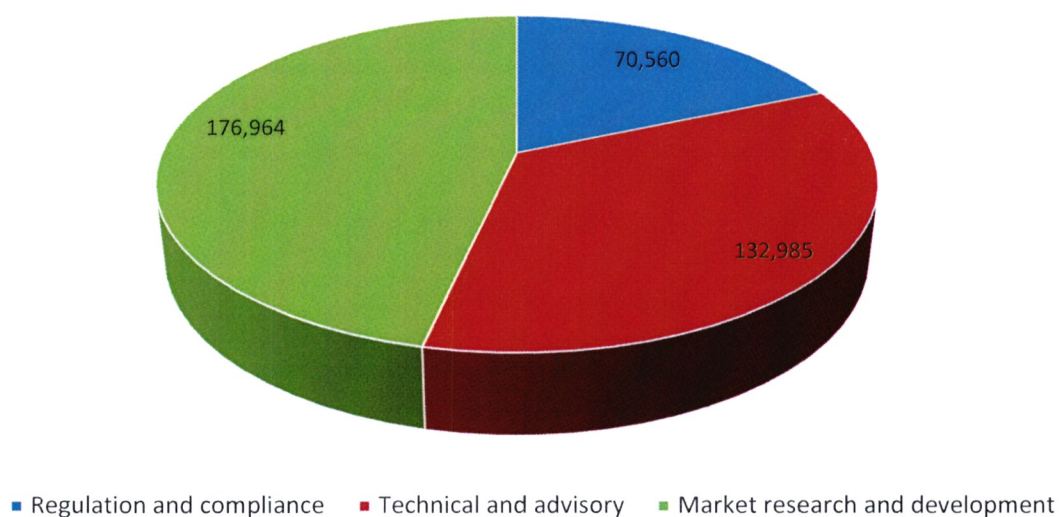
To ensure compliance with national and international standards, procedures and regulations by registered and licensed industry players for horticultural crops, farm conformity checks were done in Meru, Kilifi, Nyeri, Kajiado, Nyandarua, Machakos, Nakuru, Makueni and Muranga counties. All exporters of flowers, fruits and vegetables, were vetted to ensure compliance to traceability and good agricultural practices. In addition, eight (8) stakeholder forums were conducted on Horticulture standards (KS1758- fruits and vegetables) for produce destined for the local market. The forums were in Busia, Kisumu, Nyeri, Machakos, Bungoma, Nakuru, Kericho, and Kitui Counties. During the financial year, agreements between tea factories and tea growers, tea factories and management agents were maintained.

Table 1: Allocation of funding to AFA core mandate

	2016/2017	2015/2016		
	K.sh 000	K.sh 000	Variance	% Variance
Regulation and compliance	70,560	75,304	-4,744	-6%
Technical and advisory	132,985	162,401	-29,416	-18%
Market research and development	176,964	129,838	47,126	36%
Others	1,624,962	3,820,140	-2,195,178	-57%
Total expenditure	2,005,471	4,187,683	-2,182,212	-52%



2016/2017 Allocation to Core Mandate (K.sh '000)



VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

INTRODUCTION

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

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

AREAS OF FOCUS

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

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

Environment & sustainable agriculture: AFA recognizes the need promote sustainable agriculture and safeguard the environment and natural resources. The Authority shall therefore develop environmental health and safety services policy, mobilize staff to engage in environment and natural resources preservation projects in the community and sponsor programmes geared towards the preservation of the environment and natural resources.

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

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

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

- Improve access of youth and women in business opportunities, at AFA
- Provide financial support to women groups to raise their incomes and reduce the gap in estimated earned incomes between men and women;

Agriculture and Food Authority

Financial Statements for the Year Ended 30th June 2017

- Giving priority to female employees in the public sector in order to attain at least 30 per cent representation in recruitment, promotion and appointment of women to all decision making levels;
- Affirmative action for 30 per cent representation of women at all decision making levels.
- Gender mainstreaming in procurement plans and budgets

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

Charitable Donations: An amount shall be allocated for donations to charity and support for good causes especially with respect to food security, health and education. The amount allocated shall be administered and allocated on merit by the CSR Committee and shall evaluate all ad-hoc requests from individuals and organizations.

SPONSORSHIP IN 2016/2017

In the Financial year 2016/2017, AFA participated in the following CSR programmes:

Tecla Lorupe Peace Marathon: AFA made a donation of Kshs. 200,000 to Tecla Lorupe Peace Race, an annual 10-kilometre road running event which takes place in Kapenguria, West Pokot County. The race was initiated to reduce tribal conflict in the region.

Kenya Cancer Association (KENCASA): AFA made a donation of Kshs. 150,000.00 towards “Relay for Life” held on 15th-16th October 2016, a fundraising event towards the fight against cancer, in a bid to reduce the burden of cancer in Kenya.

IX. REPORT OF THE DIRECTORS

The Directors submit their report for audit for the year ended June 30, 2017. It comprises a period of 12 months showing the performance and state of the Agriculture and Food Authority's Affairs

Principal activities

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

Results

The results of the Agriculture and Food Authority for the year ended June 30, 2017 are set out on page 17 herein.

The Authority received a total of Kshs. 1.975 billion (Kshs 4.103 billion in 2015/16) revenues from internally generated sources and Government grants. Further, it generated revenues from rent, interest on fixed deposits received and receivable and other income totalling Kshs. 310.324 million (Kshs. 528.696 million in 2015/16).

From this revenue, the Authority incurred operating expenses totalling to Kshs. 2.017 billion (Kshs. 4.182 billion in 2015/16). The major costs are:

- Employee costs Kshs... 707.829 million (Kshs. 705.655 million in 2015/16)
- Operating Expenses Kshs. 639.325 million (Kshs. 687.566 million in 2015/16) and,
- Market research and development Kshs. 176.964 million (Kshs. 129.838 million in 2015/16).

Net surplus for the year is Kshs... 269.189 million (Kshs. 455.911 million in 2015/16) which represents a surplus margin of 11.78% (9.84% 2015/16).

Financial position

The Authority has total net assets worth Kshs.7.925 billion (Kshs. 8.818 billion in 2015/16) comprising of non-current assets of Kshs. 3.847 billion (Kshs. 3.935 billion in 2015/16) and current assets of Kshs. 6.182 billion (Kshs.7.419 in 2015/16). Current Liabilities stood at Kshs. 1.040 billion (Kshs. 1.488 billion in 2015/16) giving a working capital ratio of 5.94:1 (4.99:1 in 2015/16) thus indicating a healthy working capital position.

Directors

The members of the Board of Directors who served during the year are shown on page 5. During the year 2016/17, no director retired/ resigned.

Auditors

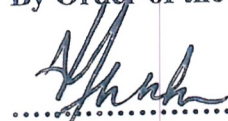
The Auditor General is responsible for the statutory audit of the Authority in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

Agriculture and Food Authority
Financial Statements for the Year Ended 30th June 2017

Approval of the financial statements

The Agriculture and Food Authority's financial statements were approved by the Board of Directors on 29/9/2017 and signed on its behalf by:

By Order of the Board



.....
ALFRED BUSOLO TABU
INTERIM DIRECTOR GENERAL

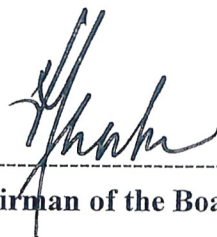
X. STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of Affairs of the Authority for and as at the end of the financial year ended on June 30, 2017. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Authority; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Authority; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Authority financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Authority's financial statements give a true and fair view of the state of Authority's transactions during the financial year ended June 30, 2017, and of the Authority's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Authority, which have been relied upon in the preparation of the Authority's financial statements as well as the adequacy of the systems of internal financial control.

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



Chairman of the Board



Director General

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.oagkenya.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON AGRICULTURE AND FOOD AUTHORITY FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of Agriculture and Food Authority set out on pages 30 to 59, which comprise the statement of financial position as at 30 June 2017, and the 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, as required by Article 229(6) of the Constitution, I have not been able to obtain sufficient appropriate audit evidence to confirm that public money has been applied lawfully and in an effective way.

Basis for Disclaimer of Opinion

1. Property, Plant and Equipment

1.1 Rehabilitation of Kahawa House

As reported in the previous year, a consultant submitted on 8 February 2001 a fee note of Kshs.56,742,130 in respect of a contract for studying and assessing the rehabilitation works that would be necessary and required for Kahawa House. However, information available indicates that the amount was not paid as the Board was convinced that no work was carried out to warrant a charge of Kshs.56,742,130.

Consequently, the consultant sued the defunct Coffee Board of Kenya for non-payment of the fee demanded. A review of the matter during 2016/2017 financial year revealed that the suit was yet to be decided upon by the High Court since 19

Report of the Auditor-General on the Financial Statements of Agriculture and Food Authority for the year ended 30 June 2017

March 2004 (Case No. HC 152 of 2004). The management has not explained why rehabilitation was necessary considering that the house was refurbished in 1998/1999 at a cost of Kshs.38 million. In addition, the management has not disclosed the amount of Kshs.56,742,130 as a contingent liability in the notes to the financial statements.

1.2 Ownership of Property, Plant and Equipment

1.2.1 The statement of financial position as at 30 June 2017, reflects a balance of Kshs.3,672,606,000 under property, plant and equipment, which includes several properties whose ownership has not been established as explained below:

- (i) The balance of Kshs.3,672,606,000 includes an amount of Kshs.72,000,000 in respect of land measuring 236.35 hectares in Thika, Kiambu County. However, the documents for land measuring 137.2 hectares out of the 236.35 hectares have not been provided for audit review. It has not been possible therefore to confirm ownership status of the land measuring 137.2 hectares.
- (ii) The balance also includes a motor vehicle registration number KBG 517C, which was registered in the name of Coffee Research Foundation.

1.2.2 Included also in the property plant and equipment balance of Kshs.3,672,606,000 is an amount of Kshs.161,200,000 representing the value of land on which the defunct Horticultural Crops Development Authority depots stand and for which title deeds had not been obtained. Further, the ownership of Plot L.R No.209/12490 situated along Mombasa road, measuring 3.5 hectares and valued at Kshs.86,000,000 is still in dispute.

1.3 Valuation of the Property, Plant and Equipment

- (i) The property, plant and equipment balance of Kshs.3,672,606,000 excludes land of undetermined value in Athi River Plot No.24848 – Mavoko Municipality, which was allocated to the defunct Kenya Sugar Board on 18 April 1995. It is not clear if and when the land will be valued for inclusion in the financial statements.
- (ii) The balance also excludes seven acres of unvalued land in Mtwapa that had been allocated to the defunct Kenya Coconut Development Authority by the defunct Kenya Agricultural Research Institute. In addition, the ownership had not been transferred by the Kenya Agricultural Research Institute by the time the Authority ceased to exist upon the commencement of the Crops Act, 2013.

- (iii) During the year 2000, the defunct Horticulture Development Corporation constructed a depot in Machakos on L.R. No. 1491/1/2/R at a cost of Kshs.55,677,000, which was one of the seven satellite depots meant for horticultural produce handling facilities (HPHF), which were funded by both the Governments of Kenya and Japan. Contrary to the original agreement with the government that the facilities' sole purpose was to pre-cool horticultural produce and provide support of market access for smallholders, the facility is currently occupied as an office by the County Government of Machakos. No compensation has been granted to the Authority for the conversion of its facility.
- (iv) Further, a review of available records revealed that the defunct Coffee Board of Kenya carried out a revaluation exercise in the year 2010, which combined the value of land on which the Coffee Plaza and Kahawa House are located with the value of buildings with a net value of Kshs.1,568,643,000 as at 30 June 2015. This treatment differs with the Authority's policy on classification of property, plant and equipment as the two assets have been classified separately as disclosed under Note 35 to the financial statements. In view of the above, it has not been possible to determine whether the depreciation charged is consistent with the depreciation policy as disclosed under Summary of Significant Accounting Policies, Note 2(e) to the financial statements, which provides for a rate of 2.5% p.a. on buildings and none on land.
- (v) In addition, the Authority owns a piece of land reference No. 209/10537 measuring 8.1 hectares located in Embakasi which was previously owned by the defunct Coffee Board of Kenya since October 1986. This land has, however, remained unutilized and is prone to illegal acquisition by land grabbers.
- (vi) Additional information shows that as at 30 June 1993, the defunct Cotton Board of Kenya had property, plant and equipment with a net book value of Kshs.210,759,785 and investments in Meru Ginnery Ltd of Kshs.13,940,758. The management has, however, not satisfactorily explained how these property, plant and equipment were accounted for upon the creation of the defunct Cotton Development Authority.

1.4 Property with a Court Case

The property, plant and equipment balance of Kshs.3,672,606,000 as at 30 June 2017 excludes the value of Riverside Estate property L.R. No. 209/4389/3 where the defunct Cotton Development Authority's head office was located. According to information available, the property belonged to the defunct Cotton Board of Kenya and has been charged against a bank loan that the Board failed to service. The bank subsequently sold the property for Kshs.21.5 million through a public auction held in November 2000. Further, records show that the purchaser of the property

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

1.5 Idle Equipment

The Authority constructed a staff recreation Centre that included a gym and a cafeteria at the Sugar Directorate Offices in Upper Kabete in the year 2013/2014 at a cost of Kshs.75,534,000. During the year 2016, the Authority procured and installed gym equipment at a cost of Kshs.21,097,442 for use in the Centre. The equipment has however not been commissioned to date and is lying idle. In addition, no gym instructor has been hired to facilitate training and safety of the staff who will be using the facility. In the circumstances, the Government has not received value for money on the facility.

1.6 Presentation and Disclosure of the Property, Plant & Equipment

- (i) The property, plant and equipment balance of Kshs.3,672,606,000 as at 30 June 2017 includes value of temporary structures of Kshs.519,000 and an amount of Kshs.151,060,000 representing the cost of motor vehicles that had been disposed of by the defunct Horticultural Crops Development Authority in the year 2014.
- (ii) It had been noted that under the defunct Tea Board of Kenya, motor vehicles were being depreciated on a straight line basis while other assets were being depreciated on a reducing balance method. No reason has been given for this treatment. In addition, it was noted that other plant, equipment and machinery were being depreciated at higher rates than normal rates and at different rates depending on location. Buildings were being depreciated at 2.5% in Dagoretti and Mombasa, 3.3% in Kericho and 20% at Jamhuri Park. No explanation has been provided for this inconsistency.

1.7 Delay in Completion of Project

- (i) The Authority Contracted M/S Twiga Construction Company for construction of an office Building, for the Tea Board of Kenya (Now Tea Directorate) at a contract price of Kshs.343,000,000 on 18 December, 2012. The Form of Agreement indicated that the contract would be for Building and Civil Works

and the duration of the contract would be sixty-five weeks from 17 January, 2013 to 18 April, 2014.

- (ii) Although there have been extensions to the contract and the Management has explained there was change in scope of works, the contractor has not completed the works to date as stipulated in the contract agreement. This is despite the direction by the National Treasury vide their letter Ref. DGIPE/A/1/10 dated 19 July, 2016 that all on-going projects were to be completed in 2016/2017 financial year.
- (iii) The contractor has not paid damages for non-completion of the works within the stipulated period.
- (iv) Further, the addendum to the contract was not signed by the contractor and hence the revised contract sums of Kshs.399,858,465 and Kshs.422,300,450 as indicated in the penultimate certificates No 21 and No 22 respectively are not supported by any valid agreement. The actual amount of the revised contract sum is therefore not clear.

Under the circumstances, it is not possible to confirm whether the property, plant and equipment balance of Kshs.3,672,606,000 as at 30 June 2017 reflected in the financial statements of the Authority is fairly stated.

2. Investment in Subsidiary

As previously reported, the statement of financial position as at 30 June, 2017 reflects an amount of KShs.389,000 under investments, which as disclosed in Note 34 to the financial statements relates to investments on coffee exchange shares. However, the investment in subsidiary of Kshs.389,000 differs with the amount of Kshs.148,200 reflected in the share certificates resulting in an unexplained difference of Kshs.240,560. In the circumstances, the value of investments disclosed in the financial statements could not be confirmed.

3. Cash and Cash Equivalents

3.1 Opening Balances and Accuracy of Cash and Cash Equivalents

The statement of financial position as at 30 June 2017 reflects an amount of Kshs.2,825,458,000 under cash and cash equivalents, which includes, as disclosed under Note 22 to the financial statements, cash on hand and in transit, short-term deposits, and collateral deposits. As reported in the year 2014/2015, the financial statements cash and cash equivalents balance for the year 2013/2014 differed with the supporting documents by Kshs.14,621,665. Although management has since passed a prior year adjustment to clear the amount from the cashbook, no supporting documents were provided to explain how the amount had been written off. The same cash and cash equivalents was net of a negative

petty cash balance of Kshs.249,000 that had not been explained at the year end. In addition, cash in hand and imprest of Kshs.2,003,000 and Kshs.49,000 as at 30 June 2015 respectively have not been supported by any verifiable documentary evidence to date.

3.2 Unsupported Cash Balances

As reported in the previous year, included in the cash and cash equivalents figure of Kshs.2,825,458,000 as at 30 June 2017 are bank account balances relating to previous years whose supporting documents have not been provided for audit review as analyzed below:

Directorate	Account Name	Account Numbers	Account balance Kshs.	Supporting documents not provided
Sugar	Rachier & Amollo & Nzamba Kitonga Advocates	Not applicable	8,581,797	Documents to support funds held
Sugar Directorate	NIC Bank	1001316447	243,000	Bank Confirmation Certificate
	ECO Bank Kenya LTD (BOCO Deposit)	Not availed	5,000,000	Bank Confirmation Certificate
	Chemilil- On-call Acc.	Not availed	10,913,125	No supporting document
	Euro Bank	Not availed	52,237,000	Bank Confirmation Certificate
	TOTAL - Kshs		66,061,797	

3.3 Bank Reconciliation

As also reported in the previous year, the Horticultural Crops Directorate's, Barclays Bank of Kenya main account No.094-5019115 bank reconciliation statement included salaries posted twice amounting to Kshs.7,901,812. Further, a review of the bank reconciliation statement revealed that the net salaries figure posted twice of Kshs.7,901,812 included payments of Kshs.4,374,496 that were not of the personnel emoluments in nature. In addition, a payment voucher No. 2137 for an amount of Kshs.11,575,468 paid to CIC Insurance had not been posted to the cash book since December 2013. No action had been taken to correct the position as at 30 June 2017.

3.4 Short Term Deposits

The short term deposits of Kshs.2,271,055,000 as at 30 June 2017 as disclosed in Note 22 to the financial statements, include an amount of Kshs.52,237,000 in

respect of deposits that had been placed in Euro Bank, which was placed under receivership in the 1990s. Although full provision has been made in these financial statements for the deposits in Euro Bank, the Authority is yet to recover any money from the receiver manager of the bank.

Further, the short term deposits include an amount of Kshs.8,581,797 under the name of Rachier & Amollo & Nzamba Kitonga Advocates deposited in an escrow account by orders of the court. The National Treasury vide their letter Ref. DGIPE/A/1/10 dated 19 July, 2016 recommended that the Authority provide details of this account to both the Ministry of Agriculture and The National Treasury. However, no supporting documentation has been provided to show the nature or the existence of the amount.

In view of the above, it has not been possible to confirm the accuracy of cash and cash equivalents balance of Kshs.2,825,458,000.

4. Receivables from Exchange Transactions

- (i) The statement of financial position as at 30 June 2017 and as disclosed under Note 23 to the financial statements reflects an amount of Kshs.3,335,913,000, (2016 - Kshs.3,367,586,000) under receivables from exchange transactions. As reported in previous years, the defunct Sugar Development Fund and Horticultural Crops Development Authority, balances of receivables from exchange transactions amounted to Kshs.148,166,000 and Kshs.92,506,000 respectively. Although a provision had been made for the long outstanding amount of Kshs.148,166,000, it still remained uncollected as at 30 June 2017.
- (ii) In addition, the amount of Kshs.92,506,000 outstanding in the books of the defunct Horticultural Crops Development Authority included trade debtors totalling Kshs.63,540,000 which was not reconciled to the supporting documents figure of Kshs.63,156,493. The trade debtors also included unexplained credit balances totalling Kshs.6,097,068. Further, the trade receivables for the defunct Coffee Board of Kenya amounting to Kshs.2,569,375,479 had been written off in 2010/2011 without necessary approvals from the Parent Ministry and the National Treasury.
- (iii) In addition, included in the trade and other receivables from exchange transactions balance of Kshs.3,335,913,000 as at 30 June 2017 and as disclosed under Note 23 to the financial statements is an amount of Kshs.3,318,809,000 relating to trade debtors (levy arrears) as at 30 June 2017, which has been outstanding for a long time. Although a specific provision of Kshs.126,417,000 has been made in these financial statements in respect of the levies, no action is being taken to recover the levy arrears. In addition, the management has not explained why the

liability was not transferred to the Commodities Fund on operationalization of the Crops Act of 2013.

- (iv) The balance further includes rent debtors balance of Kshs.15,739,000. However, as reported in the previous year, the validity of a balance of Kshs.6,000,000 in respect of Horticultural Crop Directorate cannot still be ascertained since no documents have been provided so far for audit review.
- (v) As also reported in the previous year, the trade debtors balance for 2014/2015 included an amount of Kshs.69,352,000 in respect of Horticultural Crop Directorate, while the ledger showed a balance of Kshs.63,540,000 resulting in a difference of Kshs.5,812,000. Similarly, in 2014/2015, the trade debtors balance also included an amount of Kshs.13,340,000 in respect of Tea Directorate while the ledger reflected Kshs.15,599,103, resulting in a difference of Kshs.2,259,103. Although management has effected journal entries to equate the two balances, no supporting documentation or reconciliations were provided to confirm how the decision to equate the balances was arrived at.
- (vi) The trade and other receivables from exchange transactions in the year 2015/2016 included prepayments balance of Kshs.15,959,000. However, a balance of Kshs.5,569,000 in respect of Horticultural Crop Directorate relating to the previous year lacks verifiable documentary evidence. Although management has proposed journal entries to write off the prepayments, no documentary evidence was provided to indicate the nature of the prepayment or the reasons for its being written off.
- (vii) The financial statements figure of Kshs.2,825,458,000 for receivables from exchange transactions is not supported with ageing analysis of debtors to show the periods for which they have been outstanding so as to ascertain the recoverability of the balances.
- (viii) As reported in the previous year, the financial statements as at 31 July 2014 of the defunct Coffee Board of Kenya, Sugar Development Fund and Kenya Sugar Board reflected amounts of Kshs.17,194,000, Kshs.1,837,694,000, and Kshs. 35,130,000 respectively relating to receivables from non-exchange transactions. The amounts had been outstanding for a long time and further, could not be reconciled to supporting documents. In addition, the provision for bad debts made on these balances was inadequate. This matter has remained unresolved to date.

5. Receivables from Non-Exchange Transactions

- (i) The statement of financial position as at 30 June 2017 reflects an amount of Kshs.20,232,000 under receivables from non-exchange transactions, which includes staff debtors amounting to Kshs.14,320,000 as disclosed under Note 24 to the financial statements. The latter includes un-surrendered staff imprests from the defunct Coffee Board of Kenya amounting to Kshs.2,270,769 which have been outstanding since 2013 contrary to the provisions of Section 71 (4) of the Public Finance Management Act, 2012 on cash advanced as imprest.
- (ii) As reported in 2014/2015, staff debtors balance for that year in respect of Tea Directorate included a balance of Kshs. 3,422,000 which differed with the figure of Kshs.3,507,725 shown in supporting documents resulting in unexplained and unreconciled balance of Kshs.85,725. Further, the receivables from non- exchange transactions balance for 2014/15 included an amount of Kshs.22,215,000 disclosed as staff advances out of which an amount of Kshs.1,271,000 relating to the Horticultural Crop Directorate lacked verifiable supporting documents. These matters have similarly remained unresolved.

Consequently, the completeness and accuracy of receivables from non-exchange transactions balance as at 30 June 2017 could not be confirmed.

6. Long Term Receivables from Non-exchange Transactions

The statement of financial position as at 30 June 2017 reflects an amount of KShs.131,375,000 under long term receivables from non-exchange transactions. This amount relates to a loan advanced to the Kenya Planters Cooperative Union (KPCU) by Government of Kenya through the defunct Coffee Board of Kenya for onward lending to farmers. However, KPCU is under receivership and no provision has been made in these financial statements to recognize losses that may arise if the KPCU is finally liquidated.

7. Trade and Other Payables from Exchange Transactions

- (i) The statement of financial position as at 30 June 2017 reflects a balance of Kshs.849,568,000 under trade and other payables from exchange transactions. As disclosed under Note 26 to the financial statements, this balance comprises of trade payables, payments received in advance, project funds, third party payables, other payables and overdrawn bank accounts. Further, as reported in the previous year on defunct entities that were merged to form Agriculture and Food Authority, there were long outstanding balances in the books of the defunct Sugar Development Fund amounting to Kshs.5,000,000 and Kshs.3,062,000 in respect of Boco Tractor lease deposit and Fintech Kenya that had been outstanding for

considerably a long period. In addition, an amount of Kshs.2,636,872,172 relating to the defunct Coffee Board of Kenya had been written off as an old balance on the recommendation of a contracted consultant. However, approval for the write-off from both the Parent Ministry and the Treasury were not provided for audit review. Therefore, the propriety of the write-offs effected in the 2010/2011 financial year could still not be confirmed.

- (ii) In addition, the trade and other payables from exchange transactions balance of Kshs.849,568,000 includes trade and other payables amounting to Kshs.106,740,000 brought forward from the books of the defunct Horticultural Crops Development Authority. The latter amount differed with the supporting schedules balance of Kshs.96,156,448 resulting in unreconciled variance of Kshs.10,583,552. In addition, a balance of Kshs.1,500,038 has remained outstanding for more than five years. Further, the trade and accruals balance in 2015/2016 included an amount of Kshs.5,194,331 relating to debit balances which were netted off contrary to the International Public Sector Accounting Standards (IPSAS) No.1, which states that assets and liabilities, and revenue and expenses may not be offset unless off setting is permitted or required by another IPSAS. The creditors balance also excluded an amount of Kshs. 400,000 being audit fee owing to the Office of the Auditor-General.

Consequently, the accuracy and completeness of the trade and other payables from exchange transactions balance of Kshs. 849,568,000 could not be confirmed.

8. Lease of Horticultural Produce Handling Facilities

As previously reported under the defunct Horticultural Crops Development Authority, the Authority signed an agreement with Fresh Produce Exporters Association of Kenya (FPEAK) for the lease of its Horticultural Produce Handling Facilities (HPHF). However, as per the agreement signed in September 2012, FPEAK took over the facilities without any rent/charges payable to the Authority. Further, available information indicates that according to the Ministry of Lands valuation report dated 7 September, 2011, the Authority should have charged total rent of KShs.3,770,000 per annum for lease of these facilities.

Further, considering that the facilities were constructed through a JICA loan to the Government of Kenya and that Treasury is still servicing the loan facility, the agreement between the Authority and FPEAK is not in the best interest of the Government of Kenya and the public. Available information also indicates that at the time of agreement, a member of the Board of Horticultural Crops Development Authority was also an official of the Fresh Produce Exporters Association of Kenya (FPEAK).

9. Borrowings

The statement of financial position as at 30 June 2017 reflects an amount of Kshs.735,230,000 under non-current liabilities and an amount of Kshs.68,933,000 under current portion of borrowings. The total loan balance relates to two amounts advanced to the defunct Coffee Board of Kenya, Kshs.560,000,000 GOK loan and an amount of Kshs.225,000,000 that had been advanced to the defunct Coffee Board of Kenya for onward lending to farmers through KPCU. The GOK loan continues to accrue penalties due to failure to pay the loan installments. The amount of loan outstanding in the account of KPCU amounting to Kshs.131,375,000 also remains outstanding in the books as KPCU has been unable to meet its obligations.

No documents and records have been provided on these loans and consequently, the movement of the loan balances could not be confirmed.

10. Long Outstanding and Unsupported Balances

As was also reported in the previous year, the audit of the defunct Horticultural Crops Development Authority for the year ended 31 July 2014 revealed certain balances in the financial statements that were at variance with balances reflected in supporting documents or were not supported at all. No supporting documentation or explanation was provided for payment in respect of security of Kshs.3,779,946, provision of Kshs.11,098,000, export licenses of Kshs.2,946,000, employees costs variance of Kshs.459,622, and GOK recurrent grant variance of Kshs.20,515,000.00 Further, the surrendered imprests, allowance to farmers, life insurance, tax arrears, horticultural research fund prepayments, interest on fixed deposit amounts and depreciation charges, all amounting to Kshs.114,667,000 were not supported with documentary evidence or any other workings.

These matters were not resolved in the year under review. Under the circumstances, the accuracy and completeness of the opening balances of the accumulated surplus for the Authority could not be confirmed.

11. Disbursements to Other Institutions Expense

The statement of financial performance for the year ended 30 June 2017 reflects an expenditure of Kshs. 2,000,000 in respect of disbursements to other institutions and as disclosed under Note 18 to the financial statements. The comparative figure of Kshs.2,210,874,000 is an adjustment from the amount that had been disclosed in the year ended 30 June 2016 of Kshs.2,246,900,000. However, no documentary evidence has been provided to support the expenditure of Kshs2,246,900,000. The resulting adjustment of Kshs. 36,026,000 was also not supported with documentary evidence. Consequently, the validity of the amount disclosed of Kshs.2,210,874,000 could not be confirmed.

12. Grant Reserves Account

12.1 Expenditure from Grant Reserves

The statement of changes in net assets reflects an amount of Kshs.4,052,334,000 under grants reserve as at 30 June 2017, which includes a debit of Kshs.1,161,277,000 during the year under review. The latter amount further includes Kshs.12,764,922 - used in the construction of bridges, Kshs.397,473,383 – for Cane Testing Unit (CTU) in various sugar companies, Kshs.99,327,482 - grants to a sugar company, Kshs.548,613,716 - loans to five sugar companies , Kshs.100,013,757 - fertilizer subsidies and Kshs.3,084,538 - for reversal of some prior year receipts. These grants reserve were created from the defunct Sugar Development Fund, and were to be transferred to a Commodities Fund upon commencement of the Crops Act, 2013.

The Authority has not explained the reasons for the failure to comply with Section 9 (1) of the Crops Act, 2013 which stipulates that 'there is established a fund to be known as the Commodities Fund' and Section 10(1) of the same Act, which states that 'the fund shall be used to provide sustainable affordable credit and advances to farmers', as it continues to spend the amount of the grants reserve on loans, grants and other expenditure.

12.2 Loans to Sugar Companies

- (i) During the financial year 2014/2015, 2015/2016 and 2016/2017 the Authority disbursed loans amounting to Kshs.1,915,619,021, Kshs.671,182,067 and Kshs.548,613,716, respectively to sugar companies through its Sugar Directorate.
- (ii) Examination of records available indicates that the loans aside from being unsecured, were disbursed without the authority of the Board.
- (iii) In addition, the loans were disbursed from the current grants reserve, which was created from the defunct Sugar Development Fund.
- (iv) It has also not been possible to confirm the amount disbursed to each of the sugar companies. No documentary evidence has been provided to confirm that due diligence was done on the sugar companies before the loans were issued. It is also not clear why the Authority has continued to disburse loans to entities which are known for defaulting in repayments.
- (v) Further, the amounts disbursed by the Authority in the three years, all totalling Kshs.3,135,414,804 have not been captured in these financial statements, as a result, the accounts receivables as at 30 June 2017, are understated by an amount of Kshs.3,135,414,804.

13. Prior Year issues on Revenue

13.1 Fines, Penalties and Levies

Note 5 to the financial statements reflects an amount of Kshs.313,058,000 (2016 - Kshs.3,563,305,000) in respect of levies, licences, permit, cess and other levies. However, no documentary evidence had been produced for verification to confirm the accuracy of the figure of Kshs. 3,563,305,000 relating to the previous year.

13.2 Loss on Sale of Assets

Note 20 to the financial statements reflects a nil amount (2016 – Kshs.33,000) in respect of a loss on sale of assets. However, no workings have been provided to show how the loss on disposal of assets was arrived at. Consequently, the loss of Kshs. 33,000 for the year ended 30 June 2016 could not be confirmed.

13.3 Gain / (Losses) on Foreign Exchange

Note 21 to the financial statements shows an amount of Kshs.1,203,000 (2016 - Kshs.6,767,000) described as gain on foreign exchange transactions. However, no documentary evidence has been produced to show how the gain of Kshs.6,767,000 relating to the previous year was determined.

13.4 Finance Income - External Investments

The statement of financial performance reflects an amount of Kshs.166,095,000 (2016 - Kshs.391,433,000) for the year ended 30 June 2017 under finance income – external investments and as disclosed under Note 7 to the financial statements. The amount relates to interest income from Government securities. The management has not provided evidence to show how Kshs.391,433,000 earned in the year 2016 was determined. In the absence of supporting documents or explanation, it is not possible to confirm the accuracy and completeness of Kshs.391,433,000 described as Finance Income – External Investment in 2016.

13.5 Finance Income – Outstanding Receivables

The statement of financial performance reflects revenue from exchange transactions of Kshs. 310,324,000 (2016 - Kshs. 528,696,000) for the year ended 30 June 2017. The amount relating to the previous year of Kshs. 528,696,000, includes an amount of Kshs. 20,726,000 described under Note 8 to the financial statements as finance income – outstanding receivables. However, no supporting documents or explanations have been provided for the figure. Consequently, its validity could not be ascertained.

13.6 Other Income

The statement of financial performance reflects an amount of Kshs.310,324,000 (2016 - Kshs.528,736,000) under revenues from exchange transactions, which in the previous year included other income of Kshs.13,400,000 (revised in the current year to Kshs.13,263,000) as disclosed under Note 9 to the financial statements. However, the management has not supported the figure of Kshs.13,400,000 with verifiable documentary evidence.

Consequently, the occurrence, completeness and accuracy of other income of Kshs.13,400,000 for the year ended 30 June 2016 could not be ascertained.

14. Unsupported Expenses

The statement of financial performance for the year ended 30 June 2015 reflected an amount of Kshs.2,101,525,000 under expenses. A review of available records, however, revealed variances between the figures that were reflected in the financial statements and the figures reflected in the ledger as detailed below:

Item	Sub-Item	Financial statements Kshs	Ledger Kshs	Difference Kshs
Regulation & Compliance	Inspection & Surveillance	19,276,000	19,058,894	217,106
	Development & Review of Standards	5,744,000	-	5,744,000
Technical Advisory	Collaboration & Coordination	22,146,000	18,481,708	(3,664,292)
	Stakeholders Capacity building	45,119,000	-	45,119,000
	Crop Senses	3,663,000	-	3,663,000
Market Research & Development	Market Research & Development	10,036,000	7,677,834	2,358,166
	Value addition & Promotion	35,510,000	-	35,722,000
Repairs and maintenance	Repairs and maintenance	35,510,000	36,996	(1,486,041)
Totals		177,296,000	82,214,477	95,081,513

In view of the above unexplained variances, the accuracy and completeness of surplus brought forward for the year ended 30 June 2017 could not be confirmed.

15. Operating and Administrative Costs-Security Service Providers

Note 17 to the financial statements discloses an amount of Kshs.639,325,000 (2016 – Kshs.687,566,000) described as operating/administrative expenses for the year ended 30 June 2017. However, the brought forward balances included an amount of Kshs.5,057,136 paid to a security firm for providing extra security services to HCDA's six depots. However, the management has not provided documentary evidence to date to confirm that the firm was contracted in compliance with Section 29(3) of the Public Procurement and Disposal Act, 2005. In addition, no explanation has been provided for terminating the contract of the previous firm. In the absence of evidence, the Authority was in breach of the law.

16. Accuracy of the Financial Statements

The statement of financial position as at 30 June 2017 reflects a balance of Kshs.7,925,918,000 in respect of total net assets and liabilities. However, it has been noted that corresponding figures as at 30 June 2015 for the under listed items differed with the audited figures in the financial statements for the year ended 30 June 2015 as detailed below:

Assets	2015/16 Financial Statements Comparative Figures (Kshs'000) for the year ended 30 June 2015	2014/15 Financial Statements Audited Figures (Kshs'000)	Variance Kshs'000
Current Assets	5,684,755	2,221,047	3,463,708
Cash and cash equivalents			
Receivables from exchange transactions	2,556,774	137,110	2,419,664
Receivables from non-exchange transactions	34,055	195,949	(161,894)
Non-current assets	3,770,249	3,827,055	(56,806)
Property, plant and equipment			
Investments	389	389	-
Intangible assets	21,355	24,249	(2,894)
Long term receivables from	131,375	131,375	-
	<u>3,923,368</u>	<u>3,983,068</u>	<u>(59,700)</u>
Liabilities			
Trade and other payables from exchange transactions	1,578,974	795,488	783,486
Current provisions	17,186	23,360	(6,174)
Current portion of borrowings	68,680	68,689	(9)
Tax obligations	<u>1,973</u>	<u>2,380</u>	<u>(407)</u>
Non-current liabilities	383,562	56,742	326,820

Non-current provisions			
Borrowings	<u>709,358</u>	<u>763,494</u>	<u>(54,136)</u>
Reserves	9,547,012	4,884,989	4,662,023
Accumulated Deficit	<u>(117,271)</u>	<u>(67,445)</u>	<u>(49,826)</u>

In addition, the statement of financial performance for the year ended 30 June 2016 reflected corresponding figures for 2014/15 that differed from the figures reflected in the comparative financial statements for the year ended 30 June 2015 as detailed below:

Statement of Financial performance	2015/16 financial statements corresponding figures Kshs'000	2014/15 financial statements comparative figures Kshs'000	Variance Kshs'000
Revenue from Non-Exchange Transactions			
Grants from development partners	600	-	600
Fines, penalties and levies	2,762,315	1,574,812	1,187,503
Licenses and permits	-	26,114	(26,114)
Revenue from exchange transactions			
Finance Income – External Investments	358,138	150,746	207,392
Other income	<u>9,490</u>	<u>9,004</u>	<u>486</u>
Expenses	608,017	603,197	4,820
Employee cost			
Board Expenses	2,164	4,551	(2,387)
Depreciation and amortization expenses	126,373	101,650	24,723
Repairs and maintenance	39,268	35,510	3,758
Technical and advisory	126,866	126,855	11
Market Research and development	196,931	197,152	(221)
Operating/Administrative Expenses	593,091	541,763	51,328
Disbursement to other Institutions	1,652,632	430,064	1,222,568

No adjusting journals were provided for audit review in support of the restated corresponding figures for 2014/15 reflected in the financial statements for 2015/16. In addition, the variances between the balances reflected in the comparative financial statements for 2014/15 and the corresponding figures under 2014/15 in

the financial statements for 2015/16 were not explained. Consequently, the accuracy of the balances brought forward in 2016/2017 and the financial statements for the year ended 30 June 2017 could not be confirmed.

17. Irregular Renewal of Medical Insurance Cover

The statement of financial performance reflects an amount of Kshs.707,829,000 under employee costs for the year ended 30 June, 2017, and as disclosed under Note 10 to the financial statements, it includes an amount of Kshs.90,533,000 described as medical expenses. Review of available records indicates that the Authority entered into a one-year contract with an insurance company for provision of medical cover at a cost of KShs.86,341,029 for the one year. On expiry of the contract period, the Authority renewed the cover without adhering to the procurement process, as stipulated under the Public Procurement and Disposal Act, 2015. It is therefore not clear whether the Authority got value for money upon the renewal of the medical cover.

18. General Insurance Expenses

The statement of financial performance reflects operating/administrative expenses of Kshs.639,325,000. Included in this figure are insurance expenses disclosed in Note 17 to the financial statements of Kshs.8,152,000 whose procurement was done through single sourcing contrary to the requirements of the Public Procurement and Disposal Act, 2015. The Authority was therefore in breach of the law.

19. Transfer of Assets and Liabilities from the Defunct Sugar Development Fund

- (i) Commodities Fund was constituted by merging the Sugar Development Fund and the Coffee Development Fund. The initial investment for the two funds was an amount of Kshs.4,052,300,000 from the defunct Sugar Development Fund and an amount of Kshs.1,178,153,000 from the defunct Coffee Development Fund. It was observed that, while the amount of Kshs.1,178,153,000 was contributed from the Coffee Development Fund, the amount of Kshs.4,052,300,000 that was to be contributed by the Sugar Development Fund was instead taken over by the Sugar Directorate under Agriculture Food Authority (AFA).
- (ii) Whereas the assets of the former Coffee Development Fund were automatically taken over by the newly formed Commodities Fund, the same did not happen with the assets and liabilities held by the former Sugar Development Fund. There exists no official handover report or any record to show how the assets or liabilities were shared between Agriculture and Food Authority (AFA) and Commodities Fund.

Consequently, the completeness and accuracy of the amount of assets and liabilities, disclosed by the Authority could not be confirmed.

20. Temporary Employees

Employee costs figure of Kshs.707,829,000 reflected in the statement of financial performance for the year ended 30 June 2017 includes salaries and wages of Kshs.517,353,000. The following unsatisfactory matters have, however, been noted:

- (i) After the formation of Agriculture and Food Authority vide the AFA's Act, 2013 and Crops Act, 2013, the Authority was to take up all the Assets and Liabilities of the defunct Authorities/ Boards. As a result, the Authority took over all the employees of the defunct institutions and the staff were put on Interim appointments on 20 August 2014 regardless of their terms with former employers for a period of three months. Since August 2014 and up to the time of audit, the Authority has been extending these appointments for a period of three months for each term. To date the employees are still on Interim Contracts.
- (ii) It was observed that the Authority is yet to harmonize the staff terms and conditions of service despite the Authority contracting Deloitte & Touche, a consulting firm, to conduct a job evaluation and its request to Salary and Remuneration Commission vide its letter AFA/HRM/28 dated 20 July, 2017, which provided that the Authority be allowed to finalize the process of harmonization of terms and placement of staff within two months from the date of the letter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Authority's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either intends to cease operations, or have no realistic alternative but to do so.


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

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

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

My responsibility is to conduct an audit of the Authority's financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. However, because of the matter described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

I am independent of Agriculture and Food Authority's in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya.



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

Nairobi

16 July 2018

Agriculture and Food Authority
Financial Statements for the Year Ended 30th June 2017

XII. STATEMENT OF FINANCIAL PERFORMANCE

	NOTES	2016/2017 Kshs '000	2015/2016 Kshs '000 Restated
Revenue from non-exchange transactions			
Government grants –(Recurrent & Development)	3	1,610,501	539,576
Grants from development partners	4	51,700	237
Fines, licenses, permit, penalties and levies	5	313,058	3,563,305
		1,975,259	4,103,118
Revenue from exchange transactions			
Rental revenue from facilities and equipment	6	115,806	103,177
Finance income - External investments	7	166,095	391,530
Finance income - outstanding receivables	8	27,964	20,726
Agency fees		-	-
Other income	9	459	13263
		310,324	528,696
Total revenue		2,285,583	4,631,814
Expenses			
Employee cost	10	707,829	705,655
Board Expenses	11	11,848	1,637
Depreciation and amortization expense	12	175,246	159,036
Repairs and maintenance	13	36,637	37,393
Regulation and compliance	14	70,560	75,304
Technical and advisory	15	183,816	162,401
Market research and development	16	176,964	129,838
Operating / Administrative Expenses	17	639,325	687,566
Disbursements to other Institutions	18	2,000	2,210,874
Finance costs	19	13,192	12,933
Total expenses		2,017,417	4,182,637
Other gains/(losses)			
Gain on sale of assets	20	-	33.00
Gain/(Losses) on foreign exchange transactions	21	1,023	6,767
Surplus for the period		269,189	455,911

The notes set out on pages 37 to 54 to form an integral part of the Financial Statements

Interim Director General
Alfred Busolo Tabu

Date: 28.2.2018

Head, Finance
Elias Kiragu

Date: 28.2.2018

Chairman of the Board
Raphael Lekoool

Date: 28.2.2018

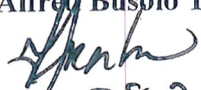
Agriculture and Food Authority
Financial Statements for the Year Ended 30th June 2017

XIII. STATEMENT OF FINANCIAL POSITION

	NOTES	2016/2017 Kshs '000	2015/2016 Kshs '000 Restated
Current assets			
Cash and cash equivalents	22	2,825,458	3,970,688
Receivables from exchange transactions	23	3,335,913	3,367,450
Receivables from non-exchange transactions	24	20,232	77,649
Inventories	25	-	3535
		6,181,604	7,419,322
Non-current assets			
Property, plant and equipment	36	3,672,606	3,740,353
Investments	34	389	388.76
Intangible assets (Software, Trademarks and Patents)	37	42,563	63,452
Long term receivables from non-exchange transactions	35	131,375	131,375
Sub total		3,846,934	3,935,569
Total assets		10,028,538	11,354,891
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	26	849,568	1,298,835
Refundable deposits from customers	27	4,323	543
Current Provisions	28	102,406	113,423
Finance lease obligation		-	-
Current portion of borrowings	29	68,933	68,933
Employee benefit obligation	30	14,837	5,630
Payments received in advance	31	-	-
Tax Obligations	32	504	664.40452
Sub total		1,040,570	1,488,028
Non-current liabilities			
Non- Current provisions	33	326,820	326,820
Borrowings	29	735,230	722,037
Sub total		1,062,050	1,048,857
Total liabilities		2,102,619	2,536,885
Net assets		7,925,918	8,818,006
Reserves		7,169,371	8,330,648
Accumulated surplus		756,547	487,358
Total net assets and liabilities		7,925,918	8,818,006


The Financial Statements set out on pages 30 to 54 were signed on behalf of the Board of Directors by:-

Interim Director General
Alfred Busolo Tabu


 Date: 28.2.2018

Head, Finance
Elias Kiragu


 Date: 28.2.2018

 **Chairman of the Board**
Raphael Lekool


 Date: 28.2.2018

Agriculture and Food Authority
Financial Statements for the Year Ended 30th June 2017

XIV. STATEMENT OF CHANGES IN NET ASSETS.

Reserves	Capital reserve Kshs '000	Grants reserve Kshs '000	Revaluation Reserve Kshs '000	General/ Accumulated surplus Kshs '000	Total Kshs '000
Balance as at 31st July 2015	533,047	6,327,244	2,583,989	(12,156)	9,432,125
Surplus/(deficit) for the period	-	1,043,477	-	455,911	1,499,388
Transfers to/from accumulated surplus	-	(2,157,110)	-	43,603	(2,113,507)
Balance as at 30 JUNE 2016	533,047	5,213,611	2,583,989	487,358	8,818,006
Surplus for the period	-	-	-	269,189	269,189
Transfers to/from accumulated surplus	-	(1,161,277)	-	-	(1,161,277)
Balance as at 30 JUNE 2017	533,047	4,052,334	2,583,989	756,547	7,925,918

Agriculture and Food Authority
Financial Statements for the Year Ended 30th June 2017

XV. STATEMENT OF CASH FLOWS

	NOTES	2016/2017 Shs 000	2015/2016 Shs 000 Restated
Cash generated from operations			
Surplus for the year before tax		269,189	455,911
Adjusted for:			-
Depreciation	12	175,246	159,035
Impairment			-
Gains and losses on disposal of assets/ foreign exchange	21	(1,023)	(6,734)
Contribution to provisions		(11,017)	270,078
Transfers to/from accumulated surplus		(1,161,277)	(1,070,026)
Finance income		(194,059)	(412,256)
Finance cost	19	13,192	12,680
Working capital adjustments:			
Increase/Decrease in inventory		3,535	(524)
Increase/Decrease in receivables		88,953	(847,031)
Increase/Decrease in deferred income		-	-
Increase/Decrease in payables		(423,249)	(487,452)
Increase/Decrease in payments received in advance		-	-
Net cash flows from operating activities		(1,240,510)	(1,920,874)
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets	35	(86,610)	(183,821)
Proceeds from sale of property, plant and equipment			
Gains and losses on disposal of assets/ foreign exchange		1,023	6,734
Finance income		194,059	412,256
Net cash flows used in investing activities		108,472	235,169
Cash flows from financing activities			
Finance cost	19	(13,192)	-
Proceeds from borrowings			-
Repayment of borrowings			-
Increase in deposits			-
Funds under EU SRSP Financing			-
Net cash flows used in financing activities		(13,192)	-
Net increase/(decrease) in cash and cash equivalents		(1,145,230)	(1,691,150)
Cash and cash equivalents at 1 July 2016		3,970,688	5,661,838
Cash and cash equivalents at 30 June 2017	22	2,825,458	3,970,688

Agriculture and Food Authority
Financial Statements for the Year Ended 30th June 2017

XVI. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original budget	Adjustment s	Final budget	Actual on comparable basis	Performance difference
ITEM DESCRIPTION	2016-2017	2016-2017	2016-2017	2016-2017	2016-2017
EXPECTED REVENUE	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Total Internally Generated Income	1,774,752	(1,617,886)	156,866	313,058	156,192
Government Recurrent Grant	866,576	887,925	1,754,501	1,610,501	(144,000)
Grants from Development Partners	72,000	(21,169)	50,831	51,700	869
Other Recurrent Revenue	676,109	42,669	718,779	310,324	54,739
TOTAL REVENUE	3,389,437	(708,461)	2,680,977	2,285,583	67,800
Personnel cost	1,100,803	(85,943)	1,014,860	707,829	307,031
Board expense	44,758	(23,000)	21,758	11,848	9,910
Disbursements	471,692	(403,861)	67,831	2,000	65,831
OPERATING AND ADMINISTARTIVE COST					
Regulation & licensing	94,298	(10,404)	83,894	70,560	13,334
Technical and Advisory	132,850	(1,155)	131,695	183,816	(52,121)
Market Research & Development	232,636	(47,118)	185,518	176,964	8,554
Corporate Communication	61,837	(21,756)	40,081	37,829	2,252
Research, Strategy and Planning	30,148	(5,000)	25,148	14,987	10,161
Human Resource Costs	138,895	(22,630)	116,265	129,322	(13,057)
Audit Expense	28,862	(858)	28,004	31,060	(3,056)
Legal Cost	71,228	(4,765)	66,463	78,137	(11,674)
Finance & Administration	335,806.52	(34,529)	301,278	308,232	(6,954)
Director General Office	9,738	-	9,738	9,567	171
Supply Chain Department	7,351	(430)	6,921	2,931	3,990
Information Comm. Technology	12,927	(2,770)	10,157	27,262	(17,105)
Repairs and maintenance	71,566	(9,312)	62,254	36,637	25,617
Finance cost	10,078	-	10,078	13,192	(3,114)
Depreciation and Amortization	171,013	(31,350)	139,663	175,246	(35,583)
TOTAL EXPENDITURE	3,026,488	(704,882)	2,321,606	2,017,417	304,189
Total Other Gains/(Losses)	-	-	-	1,023	172
SURPLUS	362,949	(3,579)	359,371	269,189	(236,217)
CAPITAL BUDGET					
Buildings	205,000	-	205,000	-	205,000
Plant and Equipment	-	1,000	1,000	407	593
Laboratory Equipment	-	340	340	-	340
Automobiles	72,100	(32,000)	40,100	37,570	2,530
Computer and Electronic Equipment	66,402	(3,200)	63,202	12,123	51,079
Office and Communication Equipment	10,654	(1,340)	9,314	14,657	- 5,343
Furniture and Fittings	8,780	-	8,780	2,136	6,644
Work in Progress	-	-	-	19,718	- 19,718
TOTAL CAPITAL BUDGET	362,936	(35,200)	327,736	86,610	241,126

VARIANCE ANALYSIS

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

1. Government Grants

The total amount received by the Authority in the FY 2016/17 is Kshs 1.611 B against a target of Kshs. 1.755B Million registering a variance of Kshs 144 Million. This amount was transferred from our allocation by the Parent Ministry to finance the budget of Pyrethrum and Processing Company.

2. Total Internally Generated Income

Other income including internally generated funds from levies and licences registered positive variance of Kshs. 156.2 M due to in horticultural exports in the period.

3. Wages, salaries & benefits.

The Authority had budgeted to spend Kshs. 1.015B on staff salaries and wages in year but the actual expenditure was Kshs. 707.8 Million, registering a positive variance of Kshs 307 M. This is due to the fact that harmonization process has not been finalized and the planned salary increases are yet to be effected.

4. Depreciation

The Authority targeted a depreciation charge of Kshs.139.6 Million in the year but actual spent was Kshs. 166.5 Million, this was attributable by wear and tear of the new assets purchased within the period.

5. Other operating costs.

The Authority targeted to spend Kshs. 1.07 B Million on operation costs in the financial year but the actual amount spent was Kshs. 1.05 Billion, registering a positive variance of Kshs 14 Million.

XVI. NOTES TO THE FINANCIAL STATEMENTS

1. Statement of compliance and basis of preparation – IPSAS 1

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

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

2. Summary of significant accounting policies

a) Revenue recognition

i) Revenue from non-exchange transactions – IPSAS 23

Fees, taxes and fines

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

Transfers from other government entities

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

ii) Revenue from exchange transactions – IPSAS 9

Rendering of services

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

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

Interest income

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

Rental income

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

b) Budget information – IPSAS 24

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

c) Taxes – IAS 12

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

d) Investment property – IPSAS 16

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

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

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

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

e) Property, plant and equipment – IPSAS 17

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When

significant parts of property, plant and equipment are required to be replaced at intervals, the Agriculture and Food Authority recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

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

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

f) Intangible assets – IPSAS 31

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

Asset	Depreciation Rate	Useful Life
Intangible Assets	20%	5yrs

g) Leases – IPSAS 13

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

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

h) Loans and receivables

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

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 Agriculture and Food Authority determines the classification of its financial liabilities at initial recognition.

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

j) Inventories – IPSAS 12

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Agriculture and Food Authority.

k) Provisions, Contingent Liabilities and Contingent Assets – IPSAS 19

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

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

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

l) Contingent liabilities

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

- Case HCCC NO.152 of 2004 for Rehabilitation of Kahawa House
- Court case no. HCCC NO. 1285 of 2001 Cotton Board of Kenya =vs= John Mututho

- Court case no. HCCCNO. 1205 of 2015 Horticultural Crops Development Authority =Vs= Sakirr Properties Ltd
- Court case no. HCCCNO. 108 of 2010 Coffee Board of Kenya =Vs= Sotua Development Company Ltd

m) Contingent Assets

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

n) Nature and purpose of reserves

The Agriculture and Food Authority creates and maintains reserves in terms of specific requirements. Agriculture And Food Authority states the reserves maintained and appropriate policies adopted.

o) Employee benefits – IPSAS 25

Retirement benefit plans

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

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

p) Foreign currency transactions – IPSAS 4

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

q) Borrowing costs – IPSAS 5

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

r) Related parties – IPSAS 20

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

s) Events after the Reporting Date – IPSAS 14

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

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2017.

t) 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 Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash Imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

u) Comparative figures

In accordance with IPSAS 1: “*Presentation of Financial Statements*”, comparative information in respect of the previous period (i. e 2015-16) for all amounts reported in the financial statements has been disclosed. However, in accordance with IPSAS 3; “*Accounting Policies, Changes in Accounting Estimates and Errors*” comparative figures have been restated in order to correct material errors and estimates that were identified after the financial statements were authorised for issue. Therefore, the comparative figures contained in the financial statements for the year ended 2016-17 reflects balances as audited in the financial statements for the period ended 30th June 2016 and the restated figures as stipulated in note number 37.

v) Significant judgments and sources of estimation uncertainty – IPSAS 1

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

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

However it is not possible to proceed with the same approach after the merger and a common approach on the computation of the depreciation of all assets of AFA was necessary for uniformity in view of this the net book values as at 31st July 2014, were taken as the cost and all the directorates applied the same as per the authority's policy on depreciation awaiting the revaluation of the all assets.

w) Estimates and assumptions

The Key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Agriculture and Food Authority based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Agriculture and Food Authority. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

x) Nature and purpose of reserves – IPSAS 1

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

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

y) Financial Instruments: Disclosures – IPSAS 30

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

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

z) Related Party Disclosures – IPSAS 20

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

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

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

zi) Adoption of new and revised standards and interpretations in IPSASs 33-38

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

zii) Useful lives and residual values

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

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

Agriculture and Food Authority
Financial Statements for the Year Ended 30th June 2017

3. Government Grants

CONSOLIDATED

	2016/2017	2015/2016
	Shs 000	Shs 000
Government Grants-Recurrent	1,610,501	539,576
Government Grants-Capital	-	-
Other	-	-
Total	1,610,501	539,576

4. Grants from Development Partners

	2016/2017	2015/2016
	Shs 000	Shs 000
Government Grants-Recurrent	51,700	237
Government Grants-Capital	-	-
Total	51,700	237

5. Levies, Fees, Licenses, Permits and Cess

	2016/2017	2015/2016
	Shs 000	Shs 000
Levies	130,382	3,412,699
Licenses and Permits	76,088	31,832
Fees	585	38,579
Cess	90,896	79,177
Others	15,108	1,019
Total	313,058	3,563,305

6. Rental revenue from facilities and equipment

	2016/2017	2015/2016
	Shs 000	Shs 000
Rental Income from Buildings	92,575	76,137
Hire of Facility/equipment	23,231	27,041
Others	-	-
Total rentals	115,806	103,177

7. Finance income - external investments

	2016/2017	2015/2016
	Shs 000	Shs 000
Government Securities(Bonds & T- Bills)	-	-
Fixed deposits	166,095	391,530
Total finance income – external investments	166,095	391,530

Agriculture and Food Authority
Financial Statements for the Year Ended 30th June 2017

8. Finance income - outstanding receivables

	2016/2017	2015/2016
	Shs 000	Shs 000
Accrued Interest	27,964	20,726
Others	-	-
Total receivables finance income – outstanding	27,964	20,726

9. Other income

	2016/2017	2015/2016
	Shs 000	Shs 000
Insurance recoveries	-	202
Others	459	13,061
Total other income	459	13,263

10. Employee costs

	2016/2017	2015/2016
	Shs 000	Shs 000
Employee related costs - salaries and wages	517,353	537,212
Employee related costs - NSSF & contributions to pensions	1,419	49,426
medical expenses	90,533	85,653
Staff Gratuities	65,340	17,799
Overtime payments	-	8,195
Others	33,183	7,369
Total	707,829	705,655

11. Board Expenses

	2016/2017	2015/2016
	Shs 000	Shs 000
Sitting Allowance	3,666	504
Accommodation and Subsistence	3,558	783
Directors Travel	2,592	16
Others	2,032	334
Total Board Expenses	11,848	1,637

12. Depreciation and amortization expense

	2016/2017	2015/2016
	Shs 000	Shs 000
Property, plant and equipment	153,768	152,342
Intangible assets	21,478	6,694
Total depreciation and amortization	175,246	159,036

Agriculture and Food Authority
Financial Statements for the Year Ended 30th June 2017

	2016/2017	2015/2016
	Shs 000	Shs 000
13. Repairs and maintenance		
Buildings	9,259	7,316
Plant and Equipment	3,445	2,284
Automobiles	14,720	16,385
Computer and Electronic Equipment	7,048	9,318
Office and Communication Equipment	696	1,679
Furniture and Fittings	1,470	411
Total	36,637	37,393

14. Regulation and Compliance

	2016/2017	2015/2016
	Shs 000	Shs 000
Registration & licensing	6,905	7,097
Inspections & Surveillance	28,195	30,518
Development and Review of Standards	8,357	7,301
Quality analysis	5,829	3,019
Stakeholders For a	8,275	16,676
International Fora/Meetings	10,836	7,453
Consultancies	2,164	18
Industry data collection and forecasting/ e portal	-	3,222
Total	70,560	75,304

15. Technical and advisory

	2016/2017	2015/2016
	Shs 000	Shs 000
Collaborations and coordination	34,303	26,708
Stakeholders capacity building	41,842	37,832
Environmental sustainability	4,756	441
International Fora/Meetings	16,457	13,599
Seeds supply & management	6,286	49,860
Crop census	26,925	16,623
Consultancies	2,416	17,338
Sugar Reform Support Programme	50,831	-
Total	183,816	162,401

16. Market Research and Development

	2016/2017	2015/2016
	Shs 000	Shs 000
Generic Promotion	82,064	53,893
Market Research & development	19,932	24,798
Subscriptions to Associations	14,928	11,905
International conference	38,742	26,140
Value Addition promotion	20,981	12,946
Market registration	317	156
Total	176,964	129,838

Agriculture and Food Authority
Financial Statements for the Year Ended 30th June 2017

17. Operating / Administrative expenses

	2016/2017	2015/2016
	Shs 000	Shs 000
Printing and Stationery	21,960	16,224
Communication Telephone and Postage	21,039	14,733
Vehicle Running Expenses	26,978	22,094
Insurance Expenses	8,152	15,156
Local Travel Expenses	132,272	104,542
International travel	11,938	11,613
Security	22,210	16,837
Electricity and water	25,042	29,470
Rent and rates	29,755	23,326
Computer Accessories	8,723	11,017
Record management	1,298	1,142
Cleaning, Garbage & Sanitary	14,658	13,029
Management Fees/Refunds	5,451	25,342
Newspapers, Periodicals, Journals and subscriptions	2,801	3,220
Advertising and Publicity	521	1,210
Bank Charges	5,277	14,928
Software licence	-	3,248
Public awareness	-	1,145
Staff Welfare	36,417	19,425
Trainings, Seminar, Retreats and Workshops and Conferences	83,400	65,786
Consultancies	2,530	29,685
Subscriptions to Professional Bodies	1,284	4,237
Staff Uniforms	740	2,274
Team Building	1,205	1,551
Audit Fees	6,292	8,256
ISO Audits	24,768	11,025
Legal Services	78,137	89,841
Public relations and corporate branding	3,437	14,590
Shows , Exhibitions & trade fairs	33,582	34,806
Corporate Social Responsibility	810	2,247
General Expenses	11,108	13,132
Provision for bad debts and others	17,539	62,436
Total general expenses	639,325	687,566

18. Disbursements to other Institutions

	2016/2017	2015/2016
	Shs 000	Shs 000
Levy Collected	-	-
Research Institute	2,000	2,039,222
Fund/Refunds	-	171,652
Total Disbursements	2,000	2,210,874

Agriculture and Food Authority
Financial Statements for the Year Ended 30th June 2017

19. Finance costs	2016/2017	2015/2016
	Shs 000	Shs 000
Interest on Borrowings	13,192	12,933
Total finance costs	13,192	12,933
20. Gain/Loss on sale of assets	2016/2017	2015/2016
	Shs 000	Shs 000
Property, plant and equipment	-	(33)
Other assets	-	-
Total gain on sale of assets	-	(33)
21. Gain/ losses on foreign exchange transactions		
Gain on foreign exchange transactions	1,023	6,767
	1,023	6,767
22. Cash and cash equivalents	2016/2017	2015/2016
	Shs 000	Shs 000
Bank	358,919	519,387
Cash-on-hand and in transit	55	378
Short-term deposits	2,271,055	3,280,096
Collateral Deposit	195,429	170,827
Total cash and cash equivalents	2,825,458	3,970,688
23. Receivables from exchange transactions	2016/2017	2015/2016
	Shs 000	Shs 000
Current receivables		
Rent debtors	15,739	8,746
Trade Debtors	3,318,809	3,342,744
Prepayments- CL	1,366	15,959
Less: impairment allowance	-	-
Total current receivables	3,335,913	3,367,450
24. Receivables from non-exchange contracts		
Current receivables	2016/2017	2015/2016
	Shs 000	Shs 000
Grant Receivable	-	-
Staff debtors	14,320	26,332
Staff Advance	428	37,497
Other Receivable	5,484	13,820
Total current receivables	20,232	77,649
25. Inventories	2016/2017	2015/2016
	Shs 000	Shs 000
Inventory	-	3,535
Total Inventory	-	3,535

Agriculture and Food Authority
Financial Statements for the Year Ended 30th June 2017

26. Trade and other payables from exchange transactions	2016/2017	2015/2016
	Shs 000	Shs 000
Trade payables	707,644	754,720
Payments received in advance- CL	6,164	2,202
Projects funds	-	2,964
Third party payable	107,659	449,560
Other payables	28,067	89,390
Overdrawn bank accounts	34	-
Total trade and other payables	849,568	1,298,835

27. Refundable deposits from customers	2016/2017	2015/2016
	Shs 000	Shs 000
Consumer deposits	4,323	543
Other deposits	-	-
Total deposits	4,323	543

28. Current Provisions

	Contingent Liabilities	Other Provisions	Performance Bonuses	Total
	Kshs 000	Kshs 000	Kshs 000	Kshs 000
Balance at the beginning of the year	-	113,423	-	113,423
Additional provisions raised	-	6,176	-	6,176
Provision utilized	-	(17,193)	-	(17,193)
Transferred from non-current provisions	-	-	-	-
Balance as at 30 June 2016	-	102,406	-	102,406

29. Current Portion of Borrowings	2016/2017	2014/2015
	Kshs 000	Kshs 000
GOK Loan	672,788	659,596
KPCU Loan	131,375	131,375
Less: total current portion of bank loans	(68,933)	(68,933)
Total non-current borrowings	735,230	722,037

30. Pensions and other post-employment benefit plans

	Defined Benefit Plan	Defined Contribution Plan	Total
	Kshs 000	Kshs 000	Kshs 000
Current benefit obligation	213	-	213
Non-current benefit obligation	14,624	-	14,624
Total as at 30th June 2017	14,837	-	14,837
Total as at 30th June 2016	5,630	-	5,630

Agriculture and Food Authority
Financial Statements for the Year Ended 30th June 2017

31. Tax Obligations	2016/2017	2014/2015
	Kshs 000	Kshs 000
VAT	504	664
PAYE	-	-
Withholding	-	-
Total deferred income	504	664

32. Non- Current provisions

	Contingent Liabilities	Other Provisions	Performance Bonuses	Total
	Kshs 000	Kshs 000	Kshs 000	Kshs 000
Balance at the beginning of the year		326,820		326,820
Additional provisions raised				-
Provision utilized				-
Transferred from non-current provisions				-
Balance as at 30 June 2017	-	326,820	-	326,820
Balance as at 30 June 2016	-	326,820	-	326,820

33. Investments

	2016/2017	2014/2015
	Kshs 000	Kshs 000
Investments	389	389
Total deferred income	389	389

The investment relates to investment in establishment of the Kenya Coffee Auctions before liberalisation of the coffee industry in 2007. After, liberalization Treasury granted approval for the winding up of the coffee exchange but the cost of the investment was never removed from the books of Coffee Board of Kenya. Prior attempts to trace the file at the company registry in order to institute the liquidation process has not borne any fruit and was informed that the file is missing. However, we have written a complaint to the registrar of companies requesting for formal communication on the status of the file.

34. Long term receivables from non-exchange transactions

	2016/2017	2015/2016
	Kshs 000	Kshs 000
Long term receivables from non-exchange	131,375	131,375
Total deferred income	131,375	131,375

The loan was issued to KPCU from the Government of Kenya through Coffee Board. The amounts are carried as an asset to KPCU and a liability to GoK. CBK was only a Channel and KPCU was supposed to make the recoveries and submit to Coffee Board.

**Agriculture and Food Authority
Financial Statements for the Year Ended 30th June 2017**

35. Property, plant and equipment

	Land	Buildings	Plant and Equipment	Automobiles	Computer and Electronic Equipment	Office and Communication Equipment	Furniture and Fittings	Temporarily Buildings	WIP	TOTAL
Cost	Kshs. 000	Kshs. 000	Kshs. 000	Kshs. 000	Kshs. 000	Kshs. 000	Kshs. 000	Kshs. 000	Kshs. 000	Kshs. 000
As at 1st July 2015	572,211	2,897,270	468,018	290,564	99,208	104,875	120,908	2,595	378,640	4,934,290
Additions	-	5,538	-	23,394	20,864	49,389	19,095	-	16,750	135,030
Transfers/adjustments	-	2,595	-	-	1,159	2,887	(4,046)	(2,595)	-	-
At 30 June 2016	572,211	2,905,403	468,018	313,958	121,231	157,152	135,958	-	395,390	5,069,320
Additions	-	-	407	37,570	12,123	14,657	2,136	-	19,718	86,610
Transfer/adjustments	-	-	-	-	(2,410)	-	-	-	-	(2,410)
At 31 June 2017	572,211	2,905,403	468,425	351,528	130,943	171,809	138,093	-	415,107	5,153,519
As at 1st July 2015	4,194	332,530	460,547	186,507	66,956	35,542	87,753	2,595	-	1,176,625
Depreciation	4,194	64,050	1,373	38,788	22,469	14,494	7,007	-	-	152,375
Transfers/adjustments	-	2,595	-	-	659	1,576	(2,268)	(2,595)	-	(33)
At 30 June 2016	8,389	399,175	461,920	225,294	90,084	51,612	92,492	-	-	1,328,967
Depreciation	4,194	64,359	1,014	41,477	20,382	15,870	6,472	-	-	153,768
Transfer/adjustment	-	-	-	-	(1,822)	-	-	-	-	(1,822)
At 31 June 2017	12,583	463,534	462,934	266,772	108,644	67,482	98,964	-	-	1,480,913
At 31 June 2017	559,628	2,441,869	5,490	84,756	22,299	104,327	39,130	-	415,107	3,672,606
At 30 June 2016	563,822	2,506,228	6,098	88,664	31,147	105,539	43,466	-	395,390	3,740,353

36. Intangible Assets

	2016/2017	2015/2016
	Kshs '000	Kshs '000
COST		
At July 1	104,980	56,189
Additions	-	48,791
Disposals	-	-
Transfer/adjustments	2,410	-
At June 30	<u>107,390</u>	<u>104,980</u>
AMORTISATION		
At July 1,	41,528	34,834
Charge for the year	21,478	6,657
Disposals	-	-
Impairment loss	-	-
Transfer/adjustments	1,822	-
At June 30	<u>64,828</u>	<u>41,491</u>
NET BOOK VALUE		
At June 30	<u>42,563</u>	<u>63,489</u>

37. Restatement of Financial statements

During the financial year 2016-17, the Authority discovered some errors in the financial statements for the year ended 2015-16 which warranted adjustment in order to reflect a fair presentation of the financial statements of AFA. In accordance with IPSAS 3; “*Accounting Policies, Changes in Accounting Estimates and Errors*” comparative figures were therefore restated in order to correct material errors and estimates that were identified after the financial statements were authorised for issue. These restated balances relating to prior year adjustments includes:-

a) Finance Income – External Investments (Note no. 7)

Finance income for the financial year 2015-16 was understated by Kshs. 97,000 relating to unrecognised interest income from National Bank of Kenya for Fibre crops Directorate. Consequently, the interest income was recognised and comparative figures for 2015-16 were restated as follows:

Particulars	Certified (Kshs. '000')	Amount	Adjustment (Kshs. '000')	Restated (Kshs. '000')	Amount
Finance Income		391,433	97		391,530

b) Other Income (Note no. 9)

Other income for the financial year 2015-16 was overstated by Kshs. 136,000 relating to insurance payments on behalf of staff for Horticultural Crops Directorate that had erroneously been included as income instead of current liabilities. Consequently, the liability was recognised and the comparative figures for both income and current liabilities for 2015-16 were restated as follows:

Particulars	Certified Amount (Kshs. '000')	Adjustment (Kshs. '000')	Restated Amount (Kshs. '000')
Other Income	338	(136)	202

c) Employee Costs (Note no. 10)

Employee Cost for the financial year 2015-16 was overstated by Kshs. 5,046,000 relating to imprests for Coffee Directorate that had erroneously been posted to employee costs instead of imprest accounts. Consequently, the amount were correctly posted and the comparative figures for both employee costs and accounts receivables for 2015-16 were restated as follows:

Particulars	Certified Amount (Kshs. '000')	Adjustment (Kshs. '000')	Restated Amount (Kshs. '000')
Employee Costs	710,701	(5,046)	705,655

d) Board Expenses (Note no. 11)

Employee Cost for the financial year 2015-16 was overstated by Kshs. 353,000 relating to general expenses that had erroneously been posted to board members expenses account. Consequently, the amount were correctly posted and the comparative figures for both general expenses and board members for 2015-16 were restated as follows:

Particulars	Certified Amount (Kshs. '000')	Adjustment (Kshs. '000')	Restated Amount (Kshs. '000')
Board Expenses	1,990	(353)	1,637

e) Depreciation and amortization (Note no. 12)

Depreciation and amortisation for the financial year 2015-16 was understated by Kshs. 4,199,000 relating to amortisation of god-downs for Fibre Directorate that are on a 99 years leasehold. Consequently, the go-downs were amortised as recommended and the comparative figures for both the asset and amortisation expense for 2015-16 were restated as follows:

Particulars	Certified Amount (Kshs. '000')	Adjustment (Kshs. '000')	Restated Amount (Kshs. '000')
Depreciation and amortization	154,837	4,199	159,036

f) Regulation and compliance (Note no. 14)

Regulation and compliance for the financial year 2015-16 was understated by Kshs. 1,506,000 relating to office petty cash amounting to Kshs. 1,568,000 for HCD field offices that had erroneously been accounted for as 'petty cash' and Kshs. 62,000 for Food Crops Directorate general expenses posted as

Agriculture and Food Authority
Financial Statements for the Year Ended 30th June 2017

forum expenses. Consequently, the amount were correctly posted and the comparative figures for 2015-16 were restated as follows:

Particulars	Certified Amount (Kshs. '000')	Adjustment (Kshs. '000')	Restated Amount (Kshs. '000')
Regulation and compliance	73,798	1,506	75,304

g) Operating/ Administrative Expenses (Note no. 17)

Operating/ Administrative expenses for the financial year 2015-16 was understated by Kshs. 62,649,000 relating to valuations costs of fixed assets amounting to Kshs 62,436,000 and Kshs. 213,000 related general expenses that had been previously omitted in the financial statements. Consequently, the amount were included and the comparative figures for 2015-16 were restated as follows:

Particulars	Certified Amount (Kshs. '000')	Adjustment (Kshs. '000')	Restated Amount (Kshs. '000')
Operating/ Administrative expenses	624,917	62,649	687,566

h) Disbursements to Other Institutions (Note no. 18)

Regulation and compliance for the financial year 2015-16 was overstated by Kshs. 36,026,000 relating '40% Disbursement' to Tea Research Institute (TRI) arising from Tea Ad Valorem Levy which was provided for in the year. After reconciliation, the actual expense was established and 'Disbursements to other Institutions' and 'Trade Payables' adjusted accordingly. Consequently, the comparative for 2015-16 were restated as follows:

Particulars	Certified Amount (Kshs. '000')	Adjustment (Kshs. '000')	Restated Amount (Kshs. '000')
Disbursements	2,246,900	(36,026)	2,210,874

i) Cash and Cash Equivalent (Note no. 22)

Cash and Cash Equivalent for the financial year 2015-16 was overstated by Kshs. 29,047,000 as per the detailed explanations here below. Consequently, the comparative for 2015-16 were restated as accordingly:

	Certified	Adjustment	Restated	Explanations
Bank	Kshs. '000	Kshs. '000	Kshs. '000	
HQ	11,400	-	11,400	N/A
Sugar	77,823	(25)	77,798	Related overdrawn account that was transferred to current liabilities as recommended
Tea	97,558	(75)	97,483	Kshs 70 was moved from Bank to Cash on hand below. Kshs. 5 related to bank charges erroneously omitted
Coffee	242,683	(6,998)	235,685	This related to restatement of foreign denominated bank balances using the CBK mean rate as recommended

Agriculture and Food Authority
Financial Statements for the Year Ended 30th June 2017

HCD	40,920	(5,420)	35,500	Kshs. 6,291,000 relates to overstated accrued interest for HCD that had been erroneously posted in the bank account and Kshs. 897,000 relates to double posted insurance payment for staff that was reversed.
Fibre	41,442	891	42,333	This related to restatement of foreign denominated bank balances using the CBK mean rate as recommended
Nocd	18,724	-	18,724	N/A
Food	420	44	464	This related to reversal of overstated bank charges
Total Bank	530,970	(11,583)	519,387	
Cash-on-hand and in transit				
Tea	-	70	70	Kshs 70,000 was moved from Bank to Cash on hand as indicated above
Coffee	3	(0)	3	N/a
HCD	1,580	(1,568)	12	This related office petty cash for HCD field offices that had erroneously been accounted for as 'petty cash' as indicated in note 37f above.
Fibre	345	(53)	293	This related to adjustment of expenses that had been erroneously double posted
Total Cash on Hand	1,929	(1,551)	378	
Short-term deposits				
HQ				
Sugar	1,324,849	(15,913)	1,308,936	This related to Kshs. 5,000,000 for Boco and Kshs. 10,913,000 for Chemelil that had erroneously been included in the accounts
Tea	1,458,182	-	1,458,182	
Coffee	381,022	-	381,022	
HCD	100,000	-	100,000	
Fibre	31,956	-	31,956	
Total	3,296,009	(15,913)	3,280,096	
Collateral Deposit				
SUGAR	170,827	-	170,827	
Total	170,827	-	170,827	
Grand - Total	3,999,735	(29,047)	3,970,689	

j) Receivables from Exchange Transactions (Note no. 23)

Receivables from Exchange Transactions for the financial year 2015-16 was overstated by Kshs. 136,000 relating understatement of interest income from National Bank of Kenya for Fibre crops Directorate in "Note 37a" above and reversal of overstated receivables for prior year income amounting to Kshs. 233,000. Consequently, the comparative for 2015-16 were restated as follows:

Agriculture and Food Authority
Financial Statements for the Year Ended 30th June 2017

Particulars	Certified Amount (Kshs. '000')	Adjustment (Kshs. '000')	Restated Amount (Kshs. '000')
Receivables from Exchange Transactions	3,367,586	(136)	3,367,450

k) Receivables from Non-Exchange Transactions (Note no. 24)

Receivables from non-exchange transactions for the financial year 2015-16 was overstated by Kshs. 21,476,000 relating inter-directorate indebtedness between Headquarter and Coffee Directorate amounting to Kshs. 26,500,000 for insurance which has been offset at consolidation and Kshs. 23,000 for Nuts Directorate . In addition receivables were understated by Kshs. 5,046,000 for employee costs as described in “note no. 37c” above. Consequently, the comparative for 2015-16 were restated as follows:

Particulars	Certified Amount (Kshs. '000')	Adjustment (Kshs. '000')	Restated Amount (Kshs. '000')
Receivables from non-exchange transactions	99,125	(21,476)	77,649

l) Trade Payables and other payables from exchange transactions (Note no. 26)

Trade Payables for the financial year 2015-16 was overstated by Kshs.83, 270,000 as per the explanations here below:

Trade and Other Payables Opening Balances	Certified Kshs. '000'	Adjustment Kshs. '000'	Restated Kshs. '000'	Explanations
<i>1a</i> Invoice for Deloitte consultancy @ HQ		(3,206)		<i>This arose from reversal of an invoice for Job evaluation that was invoiced twice</i>
<i>1b</i> Invoice for Deloitte consultancy @ TD		3,900		<i>This arose from the inclusion of the amount for Job evaluation allocated to Tea Directorate which had previously been omitted.</i>
<i>1c</i> Debit note for Tea Research Institute @ TD		(30,824)		<i>This amount arose from 40% Disbursement to Tea Research Institute (TRI) arising from Tea Ad valorem Levy which was provided for in the year. After reconciliation, the amount was adjusted against ' Disbursements to other Institutions'</i>
<i>1d</i> KSG Invoice @ TD		(910)		<i>This arose from adjustment of an invoice for KSG which had been paid but included in the creditors list as at 30.06.2016.</i>

Agriculture and Food Authority
Financial Statements for the Year Ended 30th June 2017

	<i>Ie</i>	<i>BOCO Ltd. @ SD</i>		(5,000)		<i>This related adjustment of Kshs. 5 Million in respect of Boco Tractor lease deposit and Fintech Kenya that was wrongly included in the books for Sugar Directorate.</i>
	<i>If</i>	<i>Chemelil Sugar Co. @ SD</i>		(10,913)		<i>This relates to adjustment of a call deposit that was created on 13th February, 2015 and later recalled in April 2015 but still included in the books a at 30.06.2016.</i>
	<i>Ig</i>	<i>Overdraft Reversed</i>		(25)		<i>This relates to adjustment of an overdrawn account wrongly included under Cash and Cash Equivalent</i>
	<i>Ih</i>	<i>Ebony Valuers @ HCD</i>		(5,283)		<i>This relates to adjustment for revaluation costs to Ebony Valuers at HCD that had already been provided for at HQ.</i>
	<i>Ii</i>	<i>Office Equipment @ Fibre</i>		30		<i>This relates to adjustment for office equipment understated.</i>
Sub-total				(52,231)		
2	Payments received in advance- CL		2,202	-	2,202	N/A
3	Projects funds		2,300	664	2,964	This arose from correction of exchange rate used for converting USD bank accounts to KES as recommended by the auditors in annual audit for Fibre Directorate Financial Statements for 2015-16.
4	Third party payable		454,762	(5,202)	449,560	This amount arose from '10% infrastructure funds' arising from Tea Ad Valorem levy which was provided for the year after reconciliation. The amount was adjusted against Disbursements to other Institutions '
5	Other payables		115,890	(26,500)	89,390	This relates to inter- directorate indebtedness between Coffee and AFA HQ for medical insurance but the amount cancelled out on consolidation.
Grand- Total			1,382,105	83,269)	1,298,835	

m) Current Provisions (Note no. 28)

Current Provisions for the financial year 2015-16 was understated by Kshs. 62,437,000 relating provision of valuation of fixed assets as described in “note no. 37g” above. Consequently, the comparative for 2015-16 were restated as follows:

Particulars	Certified Amount (Kshs. '000')	Adjustment (Kshs. '000')	Restated Amount (Kshs. '000')
Current Provisions	50,986	62,437	113,423

Agriculture and Food Authority
Financial Statements for the Year Ended 30th June 2017

n) Non-Current Provisions (Note no. 32)

Non-Current Provisions for the financial year 2015-16 was overstated by Kshs. 65,117,000 relating to provisions made for rehabilitation of Kahawa House amounting to Kshs 56,742,000 and Kshs 8,375,000 for Cotton Board of Kenya Case that were reclassified as contingent liabilities in accordance with IPSAS 19 as described in ‘Note no. k’ on contingent liabilities. Consequently, the comparative for 2015-16 were restated as follows:

Particulars	Certified Amount (Kshs. ‘000’)	Adjustment (Kshs. ‘000’)	Restated Amount (Kshs. ‘000’)
Non-Current Provisions	391,937	65,117	326,820

o) Property, Plant and Equipment

Property, Plant and Equipment for the financial year 2015-16 was overstated by Kshs. 16,752,000 relating to an omission of prior year amortisation of god-downs for Fibre Directorate that are on a 99 years leasehold amounting to Kshs 16,777,000 and Kshs 26,000 being an adjustment on understated equipment .Consequently, the comparative for 2015-16 were restated as follows:

Particulars	Certified Amount (Kshs. ‘000’)	Adjustment (Kshs. ‘000’)	Restated Amount (Kshs. ‘000’)
Property, plant and Equipment	3,757,105	16,752	3,740,353

XVII. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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


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

Agriculture and Food Authority
Financial Statements for the Year Ended 30th June 2017

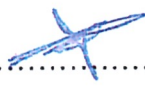
Guidance Notes:

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

Interim Director General

Signature 
Date..... 28.2.2018

Interim Head of Finance

Signature 
Date..... 28.2.2018

APPENDIX 1: GOVERNMENT GRANT

AGRICULTURE AND FOOD AUTHORITY			
FUNDS RECEIVED FROM THE PARNT MINISTRY FOR THE FY 2016-2017			
TRANSFER DATE	DOC No.	TYPE OF TRANSFER	Amount in Kshs. 000
05-08-16	BRCTP0001	Recurrent Grant from Government: EFT Invoices:	73,104
08-08-16	BRCTP0002	Recurrent Grant from Government- July 2016:EFT Inv	73,104
02-09-16	BRCTP0023	Recurrent Grant from Government: EFT Invoices:	146,208
06-10-16	BRCTP0004	Recurrent Grant from Government: EFT Invoices:	146,208
28-10-16	BRCTP0019	Recurrent Grant from Government: EFT Invoices:	146,208
02-12-16	BRCTP0022	Recurrent Grant from Government: EFT Invoices:	146,208
29-12-16	BRCTP0036	Recurrent Grant from Government: EFT Invoices:	146,208
30-01-17	BRCTP0055	Recurrent Grant from Government: EFT Invoices:	146,208
02-03-17	BRCTP0063	Recurrent Grant from Government: RTGS Invoices:	146,208
04-04-17	BRCTP0079	Recurrent Grant from Government: EFT Invoices:	146,208
15-05-17	BRCTP0139	Recurrent Grant from Government: EFT Invoices:	146,208
31-05-17	BRCTP0112	Recurrent Grant from Government: EFT Invoices:	74,208
27-06-17	BRCTP0142	Recurrent Grant from Government - June 2017:RTGS I	74,208
		Total Receipts	1,610,501

APPENDIX 2: CASH AND CASH EQUIVALENT

BANK	AMOUNT
	Kshs '000
CITI BANK	103,273
NATIONAL BANK	124,139
CO-OPERATIVE BANK	48,107
STANBIC	42,488
BARCLAYS	28,404
KCB	12,260
NIC BANK	250
Petty Cash	1
Cash in Hand	54
Short Term Deposits	2,271,055
Collateral Deposits	195,430
Total Cash and Cash Equivalents	2,825,458