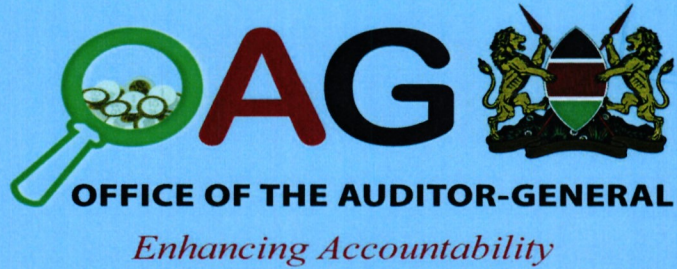



REPUBLIC OF KENYA



REPORT

OF

 THE NATIONAL ASSEMBLY	
DATE:	31 MAY 2022
	TUESDAY
TABLED BY:	Majority whip, Hon - E Wangwe, MP
CLERK AT THE TABLE:	Gertrude Chebet.

THE AUDITOR-GENERAL

ON

**AGRICULTURAL DEVELOPMENT
CORPORATION**

**FOR THE YEAR ENDED
30 JUNE, 2020**



OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
REGISTRY

15 APR 2021

RECEIVED

Agricultural Development Corporation

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2020**

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

Abbreviations, Key and Definitions

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

Table of Content

Page

I.	KEY CORPORATION INFORMATION AND MANAGEMENT	ii
II.	BOARD OF DIRECTORS	iv
III.	MANAGEMENT TEAM.....	viii
IV.	REPORT OF THE CHAIRMAN.....	x
V.	REPORT OF THE MANAGING DIRECTOR.....	xi
VI.	CORPORATE GOVERNANCE STATEMENT	xii
VII.	CORPORATE SOCIAL RESPONSIBILITY STATEMENT	xiii
VIII.	REPORT OF THE DIRECTORS.....	xiv
IX.	STATEMENT OF DIRECTORS' RESPONSIBILITIES.....	xv
X.	REPORT OF THE INDEPENDENT AUDITORS ON THE CORPORATION.....	xvi
XI.	CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE	1
XII.	CORPORATION STATEMENT OF FINANCIAL PERFORMANCE	2
XIII.	CONSOLIDATED STATEMENT OF FINANCIAL POSITION	3
XIV.	CORPORATION STATEMENT OF FINANCIAL POSITION.....	4
XV.	LANDS LTD.....	5
XVI.	STATEMENT OF CASHFLOWS	7
XVII.	STATEMENT OF COMPARISON OF BUDGET AND ACTUAL.....	8
XVIII.	NOTES TO THE FINANCIAL STATEMENTS	9
XIX.	PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS	33

I. KEY CORPORATION INFORMATION AND MANAGEMENT

(a) Background information

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

(b) Principal Activities

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

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

(c) Key Management

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

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

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2020 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Ag. Managing Director	Mr. Mohamed Bulle
2.	Head of Corporate Planning	Dr. Winnie Macharia(Phd)
3.	Ag. Head of Technical	Mr. Samuel Bundotich
5.	Head of Business Development	Mr. Maxwell Mugonyi
6.	Ag. Financial Controller	Mr. Jonathan Keitany
7.	Ag. Head of Internal Audit	Mr. Morrison Andwati
8.	Corporation Secretary	

AGRICULTURAL DEVELOPMENT CORPORATION

KEY CORPORATION INFORMATION AND MANAGEMENT (Continued)

(e) Fiduciary Oversight Arrangements

1. The Board operates under three committees as follows;

Audit Committee activities include;

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

Finance, Staff and General Purpose Committee

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

Project Committee activities

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

(f) Headquarters & Registered Office

Development House 10th Floor

Moi Avenue

Nairobi, KENYA

(g) Corporation Contacts

P.O. Box 47101-00100

Telephone: (254) -20-2250695/185

E-mail: info@adc.co.ke

Website: www.adc.co.ke

(h) Corporation Bankers

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

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

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

(i) Independent Auditors

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

j) Principal Legal Adviser

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

II. BOARD OF DIRECTORS

Hon. Nicholas Salat, EBS

Chairman



Appointed 7th August 2020

Hon. Salat holds a Bachelor's degree in Arts from University of Alberta. Hon. Salat has a wealth of experience in public service being the current Secretary General of Kenya African National Union (KANU) and having served as Member of Parliament for Bomet Constituency. In addition, he has served as the Chairman and Organizing Secretary of Bomet Constituency. Between the years 2003-2007 Hon. Salat served as the Shadow Cabinet Minister for Home Affairs.

Mr. Mohamed Bulle

Ag. Managing Director

He was appointed the Acting Managing Director in April 2019. He holds Master of Science in Environmental Studies with specialization in sustainable development and climate change Antioch University-USA.

Mr. Bulle also holds Bachelor of Science in Agricultural Education and Extension, and Diploma in Agriculture from Egerton University, a certificate in animal health from Animal Health and Industry Training Institute (AHITI) and a certificate in meat inspection from the University of Nairobi. He is also a member of the board of the directors of North-Eastern Muslim Welfare Society which caters for the orphans and the vulnerable members of the society and a founder of Clean Air-Cool Planet Kenya Ltd, an agricultural and environmental consulting firm. Mr. Bulle has held key positions in the livestock and agriculture industry. Mohamed is a member of the Environmental Institute of Kenya-EIK (a professional body for environmentalists). He also has accreditation with National Environmental Management Authority-NEMA as an environmental impact assessment and audit (EIA and Audit) Lead Expert.



Ms. Lydia Naneu Ntimama

Member

Appointed 7th August 2020



Ms. Ntimama holds a Master's Degree in Environmental Planning and Management from University of Nairobi, and a Bachelor of Arts in Tourism Management and History. She has vast experience in public and community service having served as a Councillor of the County Council of Narok. Ms. Ntimama has served in various school boards and was the Finance Committee chair for Rift Valley Water Services Board.

BOARD OF DIRECTORS (Continued)

MR. EPHANTUS MURAGE MUNDIA, MBS

Member

Appointed 7th August 2020

Mr. Murage is a licensed Surveyor with 33 years' practice experience. He is a member of Institution of Surveyors of Kenya (FISK). A full member of Institution of Surveyors of Kenya (MISK). Mr. Murage holds a Masters in Land Information System from ITC Netherlands and a Bachelor's degree in Surveying from the University of Nairobi. Mr. Murage has served as a member of the Ministerial Human Resource Management Advisory Committee in Ministry of Lands, Ministry of Interior and Coordination of National Government. Previously, he worked as Acting Deputy Director of surveys before being promoted to be the Director of Surveys Kenya. Mr. Murage's last assignment was the Director, National and International Boundaries Ministry of Interior and Coordination of National Government.



MRS. JEAN NJIRU

Member

Appointed 6th June 2018

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



CPA ELIZABETH MKANDOE SHUNGULA

Representative -National Treasury

Appointed 6th June 2018

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



AGRICULTURAL DEVELOPMENT CORPORATION

BOARD OF DIRECTORS (Continued)

MR. RICHARD NGOMO



Member

Appointed 7th August 2020

Mr. Ngomo is a seasoned Corporate and Humanitarian Risk Management Professional with over 20 years of combined consulting and management experience in Africa, Middle East and Asia. He is a holder of Bachelor Degree in Political Science from University of Nairobi. Currently, he is pursuing Msc. Security, Conflict and International Development. He has vast experience and has worked with Organizations such as the United Nations, World Vision, Oxfam and Kenya Seed. He is currently the Regional Risk Advisor for Relief International.

MS LINA NDUTA KIHORO MEMBER

Appointed 30th April, 2020

Ms. Lina Nduta Kihoro holds a Bachelor of Arts degree in Communication and Political Science from University of Nairobi. She also has a diploma in Project Management from Zetech University. Ms Kihoro has over 7 years' experience and expertise in project management, marketing, product development, policy implementation. She is currently the Managing Director of Jelink Limited.



HON. DAVID KARITHI

Member



Appointed 7th August 2020

Hon. Karithi has a Bachelor of Development Studies from Mount Kenya University. He was the member of Parliament Tigania West Constituency. He has vast experience in policy formulation and implementation having served as member of parliamentary committee and the Councillor Ngomo ward in Meru County.

AGRICULTURAL DEVELOPMENT CORPORATION

BOARD OF DIRECTORS (Continued)

MR. ZEPHANIA KIPSANG YEGO

Member

Appointed 7th August 2020



Mr. Yego is an advocate of the High Court of Kenya with 15 years' legal practice experience. He is the Managing Partner Z.K. Yego Law Offices. Mr. Yego was the former Chairman, Law Society of Kenya, North Rift Branch. Previously, he worked as the Secretary General, Law Society of Kenya, North Rift Branch and was an Associate Advocate at Kibichy and Company Advocates.

ENG. JEMUTAI BARKEBO

Member

Appointed 7th August 2020

Eng. Barkebo Hold a bachelors of technology in chemical and process Engineering from Moi University. She is a qualified auditor in ISO9001:2015 having undertaken various courses and versed knowledge on its implementation. She has sound knowledge in public resources management having served the Chairperson Ng-Cdf Baringo central county, vice Chairperson Kenya Redcross Kabarnet Branch among others.



MR. CHRISOLOGUS MAKOKHA

- Representative state
advisory committee (SCAC)

DR. GEOFFREY MUTAI

- Representative Ministry of Agriculture state
department of Livestock

MR. KELLO HARSAMA

- Representative Ministry of Agriculture state
department of Agriculture

III. MANAGEMENT TEAM

Mr. Mohamed Bulle

Ag. Managing Director



He was appointed the Acting Managing Director in April 2019. He holds Master of Science in Environmental Studies with specialization in sustainable development and climate change Antioch University-USA.

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

agriculture industry.

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

CPA. Jonathan Keitany

Ag. Financial Controller

Mr Keitany holds MBA (accounting) option from University of Nairobi; He is a Certified Public Accountant of Kenya and a member of ICPAK and IIA as well as certified Monitoring and Evaluation Officer. He was appointed Head of Internal Audit in June 2017 to May 2019 when he was moved to finance and appointed the acting financial Controller.



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

Winnie Macharia (Dr.)

Head of Corporate Planning & Administration



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

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

She is a professional and accomplished administrator and manager with over 20 years' experience in senior management, administration and leadership in diverse work environment. She has four years' experience as Head of Corporate Planning and Administration in ADC, three years' experience as Provincial Director Youth Development Nairobi under the

AGRICULTURAL DEVELOPMENT CORPORATION

MANAGEMENT TEAM(Continued)

Ministry of Youth Affairs and sports and Head of Department for four years at Parklands Boys High School as well as a teacher for nine years.

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

Mr. Maxwell Mugonyi

Head of Business Development



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

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

CPA. Morrison Andwati

Ag. Head of Internal Audit

CPA Andwati is a Certified public accountant and a member of Institute of Public Accountants of Kenya. He holds a bachelors degree of commerce from Kenya College of Accountancy (KCA). Pro to his appointment as the Acting Head of audit services, he had risen through the ranks serving as the Chief accountant and acting head of finance at ADC



Mr. Samuel K.K Bundotich

Ag. Head of Technical



Mr. Bundotich hold a BSC. Agricultural Economics from Egerton University and an MBA (Strategic Management) from Jomo Kenyatta University of Agriculture and Technology. He has risen through the ranks at ADC previously serving as a Regional Manager, Technical Manager Strategy implementation and planning where he spearheaded formulation and implantation of the Corporation strategic plan, development of standard operating procedures and the Implementation of Quality Management System (QMS), currently he is the Head of Technical Services.

IV. REPORT OF THE CHAIRMAN

Once again I am pleased to present the annual financial statement and report for Agricultural Development Corporation for the year ended 30th June, 2020.

Business environment

The year began well in general and we experienced relatively stable and conducive weather conditions in Kitale which contributed to an improved production of seed maize from 4.1 to 9.1 million Kilos being a 122% increase in production. The corporation experienced improved production in some of its crop enterprises. However, adverse weather conditions were experienced in other places such as Tana-River and Laikipia counties where the Corporation exercises beef rearing that resulted in loss of animals and reduced herd size.

Corporate Governance

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

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

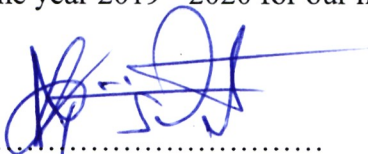
Future Outlook

The Corporation in collaboration with the Government of Kenya set up a Semen Production Centre in Kitale. The Centre provides high quality genetics at affordable prices to the farmer. This is a 100 bull capacity zero grazing production unit covering 100 acres. The facility design is one of its kind in Africa equipped with state of the art equipment to ensure quality traceable superior genetics ensuring disease free product and environmental sustainability. The centre has capacity to produce 1 million straws of semen annually. To this end, I would like to acknowledge with thanks the support we are currently receiving from the Ministry of Agriculture, Livestock, Fisheries & Cooperatives.

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

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

I confidently look forward to a continued strong relationship with all of our stakeholders and partners in the year 2019 - 2020 for our mutual benefit.



.....
CHAIRMAN.

14.4.21
.....
Date

V. REPORT OF THE MANAGING DIRECTOR

Development and Implementation of Strategic Plan.

The corporation formulated a five year strategic plan 2019-2024 and is now in the process of implementing the objectives set out in its plan. Our budget and performance contract is anchored on this strategic plan, whose aim is to further improve revenue generation, efficiency enhancement, operational excellence, diversification and value addition for our products and services.

Technology and Automation.

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

Core Values.

The Corporation shall continue to uphold the practice of ethical behaviour in order to exhibit good corporate image and citizenship. We will continue to pursue growth in line with our core values and a solid culture of integrity and professionalism, innovativeness partnership with other stakeholders, delivery of quality service, corporate social responsibility and team work.

Performance contracting

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

Future outlook.

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

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



Managing Director

14/4/21

Date

VI. CORPORATE GOVERNANCE STATEMENT

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

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

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

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

Board Committees

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

i. The Audit Committee

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

ii. The Finance Staff and General Purpose Committee.

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

iii) Project Committee

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

Independence

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

Activities and Achievements

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

.....
Chairman

14.4.21
.....
Date

VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

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

As a way of appreciating the community we developed a Corporate Social Responsibility (CSR) policy to guide in identification and implementation of various community based activities aimed at improving the social wellbeing of our people. In support of local initiatives, various CSR activities have been sponsored by the corporation thus creating a synergy of ethics where our people and the corporation come together to contribute towards improving physical infrastructure and social wellbeing. During the year 2019/2020 the corporation undertook the following CSR activities:-

Education Support

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

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

Community Policy

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

Environment Conservation

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

Women Empowerment

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

AGRICULTURAL DEVELOPMENT CORPORATION

VIII. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 30th June, 2020 which show the state of affairs of *Agricultural Development Corporation* and its subsidiary – *Lands Ltd.*

Principal activities

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

Results

The results of the Corporation for the year ended 30th June, 2020 was a loss of Kshs. 78.8 M as set out on pages 1.

Board of Directors

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

Auditors

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

By Order of the Board

Corporate Secretary
Nairobi



Date: 14/4/2021

AGRICULTURAL DEVELOPMENT CORPORATION

IX. STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of the Corporation's financial statements, which give a true and fair view of the state of affairs of the Corporation as at the end of the financial year ended on 30th June 2020. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Corporation; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Corporation; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Corporation's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act 2012 and the State Corporations Act Cap 446. The Directors are of the opinion that the Corporation's financial statements give a true and fair view of the state of Corporation's transactions during the financial year ended 30th June 2020, and of the Corporation's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Corporation, which have been relied upon in the preparation of the Corporation's financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

The Corporation's financial statements were approved by the Board on 28.09.2020 and signed on its behalf by:


.....

Director

14/4/21
.....

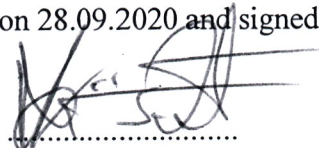
Date


.....

Director

14/4/2021
.....

Date

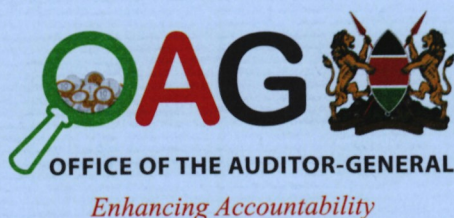

.....

Director

14.4.21
.....

Date

REPUBLIC OF KENYA



Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke

HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON AGRICULTURAL DEVELOPMENT CORPORATION FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying consolidated financial statements of Agricultural Development Corporation (ADC) set out on pages 1 to 33, which comprise the consolidated statement of financial position as at 30 June, 2020, and the consolidated statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Agricultural Development Corporation and its Subsidiary as at 30 June, 2020, and of its consolidated financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Property, Plant and Equipment

(i) Repossessed Land

As reported in the previous year, property, plant and equipment balance of Kshs.1,480,000,000 as at 30 June, 2020 includes farms managed by the Corporation valued at Kshs.37,910,000. These farms, referred to as ADC Private Forest Ndabibi L.R.7281/3 and 20591/86 relates to 4,000 acres of land re-possessed from allottees who were unable to pay allotment fees.

Further, land L.R. No.20591/86 in Ndabibi and a parcel of land in Molo do not have ownership documents while land No. L.R.7281/3 has been encroached on by informal settlers although the Corporation has secured the title deed.

(ii) Home Farm Land

As previously reported, the Corporation's land net book value of Kshs.521,513,000 as at 30 June, 2019 excludes the value of land L.R.No.10668 measuring about 2,908.42 acres known as Home Farm. The land was allocated to private developers in the year 1994 under unclear circumstances.

(iii) Garissa Irrigation Project

The property, plant and equipment balance of Kshs.1,480,000,000 as at 30 June, 2020 still exclude the value of land measuring 319.4 hectares located in Garissa Municipality whose value has not been determined.

Under the circumstances, the accuracy and completeness of the property, plant and equipment balance of Kshs.1,480,000,000 as at 30 June, 2020 could not be confirmed.

2. Capital Works in Progress

As previously reported, the capital work-in-progress balance of Kshs.140,737,000 as at 30 June, 2020 includes a construction project at Suam Orchids farm in Kitale valued at Kshs.9,978,000 that was started in 2006. Further, the capital work-in-progress includes an amount of Kshs.4,899,287 relating to projects that have remained idle for the last eight (8) years.

Under the circumstances, the carrying value of the capital work-in-progress of Kshs.140,737,000 as at 30 June, 2020 could not be confirmed.

3. Investments

The investment balance of Kshs.467,283,000 (2018/2019 - Kshs.467,283,000) reflected in the statement of financial position as at 30 June, 2020 includes amounts relating to investments in shares held in Chemelil Sugar Company Limited – Kshs.203,592,000, Development House – Kshs.90,251,000, Muhoroni Sugar Company – Kshs.41,342,000, Kenya Co-operative Creameries – Kshs.4,151,000, Kenya Grain Growers Coop Union – Kshs.1,404,000, Kenya Seed Company Limited – Kshs.114,014,000, Pyrethrum Board of Kenya – Kshs.36,000, Kenya Planters Co-op Union – Kshs.31,000 and Agro-Chemical and Food Company Ltd – Kshs.16,900,000 which were acquired between 1975 and 1995.

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

4. Investment Income

The Corporation's consolidated statement of financial performance for the year ended 30 June, 2020 reflects investment income of Kshs.77,400,000 being 50% share of rental income generated from Development House co-owned with Agricultural Finance

Corporation. Available information indicates that there is a registered ADCAFC Development Limited Liability Partnership (Registration Number LLP- 4D818Q) managed by the two (2) institutions to collect rental income generated at Development House. However, the accuracy and completeness of the investment income of Kshs.77,400,000 could not be confirmed since expenditure and revenue records relating to ADCAFC Development Limited Liability Partnership were not provided for audit review.

Although the partners appointed an audit firm to audit the partnership financial statements, the Management have not submitted financial statements for audit to the Auditor-General.

5. Biological Assets

As was reported in the previous year, the Corporation received an amount of Kshs.250,000,000 from the government in the year 2017 for purchase of livestock as a mitigation to the pastoralists against loss due to drought. Schedules provided for audit indicated that the Corporation acquired 4008 animals at a total cost of Kshs.105,608,000. After effecting the loss of 60 animals and deaths of 770 animals, the Management reported a net value of Kshs.86,714,000 for the animals. However, this amount is not reflected in the value of biological assets of Kshs.1,507,165,000 as at 30 June, 2020.

Consequently, the value of the biological assets of Kshs.1,507,165,000 reflected in the financial statements is not complete or fairly stated.

6. Trade and Other Payables – Exchange Transactions

- (i) The consolidated statement of financial position as at 30 June, 2020 reflects trade and other payables balance of Kshs.1,266,351,000, which includes trade creditors and non-trade creditors of Kshs.716,336,000 and Kshs.550,015,000 respectively. As reported in the previous years, non-trade creditors' balance of Kshs.550,015,000 includes audit fees totalling Kshs.22,446,120 that have been outstanding since 1995. No satisfactory reason has been provided for failure to pay the fees.
- (ii) The non-trade creditors' balance also includes unremitted statutory deductions of Kshs.25,137,313, Kshs.18,013,871, Kshs.29,426,999 and Kshs.68,992,733 for Pay As You Earn (PAYE), National Social Security Fund (NSSF), Pension Scheme deductions and Agdeco Society deductions respectively dating back to 1998.
- (iii) The trade and other payables balance includes an outstanding balance of Kshs.267,279,416, payable to a supplier in respect of fertilizer supplies. The amount includes Kshs.112,219,009 being interest charged at the rate of 18% per annum based on the number of days in default as at 30 June, 2014. Any interest that may be accruing to the account has not been included in the financial statements from 1 July, 2014 to date. The matter is still in court.

7. Grants Reserves

The consolidated statement of financial position reflects a balance of Kshs.3,384,786,000 under grants reserves. As disclosed in Note 29 to the financial statements, the balance includes an amount of Kshs.137,500,000 received during 2017/2018 financial year from the State Department for Livestock for off-take programme less an amount of

Kshs.15,330,000, where the Corporation had been instructed to pay identified farmers who had lost their livestock. The grant of Kshs.137,500,000 was meant for off-take programme for the year and was actually spent during that year. It is therefore not clear why the amount had to be capitalized.

Further, the consolidated statement of financial position reflects a negative balance of Kshs.798,577,000 under accumulated deficit as at 30 June, 2020. However, the balance brought forward for 2018/2019 financial year was Kshs.722,282,000 resulting in a difference of Kshs.76,295,000 instead of Kshs.78,875,000 reported in the statement of financial performance for the year ended 30 June, 2020. The resulting variance of Kshs.2,580,000 has not been explained.

8. Receivables from Exchange Transactions.

The consolidated statement of financial position reflects a balance of Kshs.608,714,000 under receivables from exchange transactions which, as disclosed in Note 20 to the financial statements, comprised of trade and non-trade receivables of Kshs.441,621,000 and Kshs.167,093,000, respectively. The trade receivables of Kshs.441,621,000 is net off specific provision and general provision of Kshs.52,499,000 and Kshs.4,909,000 respectively. The following observations were made:

- (i) As reported in the previous year, the receivables from exchange transactions balance of Kshs.608,714,000 includes an amount of Kshs.9,859,415 that has remained outstanding for a long period of time dating back to 1980. Further, the analyses of the specific provision of Kshs.52,499,000 for bad and doubtful debts was not provided for audit review. In addition, the basis for determining the general provision of Kshs.4,909,000 was not disclosed.
- (ii) Included in the non-trade debtors' net balance of Kshs.167,093,000 is an amount of Kshs.5,733,260 (2018/2019 – Kshs.5,733,260) described as lost cash.
- (iii) Further, the non-trade debtors of Kshs.167,093,000 includes deferred grants receivable of Kshs.70,000,000 from the parent Ministry. However, no documentary evidence was provided to date to indicate that the amount would be receivable in the foreseeable future.
- (iv) Included in the trade debtors gross balance of Kshs.441,621,000 is an amount of Kshs.312,144,802 (2018/2019) described as Head Office balances. The Head Office balances includes an amount of Kshs.154,804,812 due from long term leases entered into between the Corporation and various entities which were later terminated since the Government wanted to take over the Galana/Kulalu ADC farms. Some of the entities have taken the Corporation to court for breach of contract, and therefore the chances of recovering the debt is nil. No provision was made in the financial statements for the balances.
- (v) In addition, included in trade debtors are balances brought forward relating to Molo farm units; Enchili, Molo, Sirikwa and Asante, which showed balances of Kshs.7,215,470, Kshs.9,565,400, Kshs.666 and Kshs.1,296,450 respectively that were not supported with documentary evidence.

- (vi) As reported in the previous year, verification of records in 2015/2016 revealed that lease rental receivables totalling Kshs.214,458,668 had not been included in the financial statements. No adjustment has similarly been made in the financial statements for 2019/2020 to record this omission.

Under the circumstances, the completeness, accuracy and recoverability of receivables from exchange transactions balance of Kshs.608,714,000 as at 30 June, 2020, could not be confirmed.

9. National Livestock Project

As disclosed in Note 21 to the financial statement, the consolidated statement of financial position reflects a balance of Kshs.46,848,000 (2019- Kshs.46,634,000) in respect of the National Livestock Project account that is claimable by the Corporation from the parent Ministry. The project started in 2006 when the Government granted ADC an amount of Kshs.198,000,000 to purchase livestock under the emergency off-take programme in drought stricken arid areas. The Corporation subsequently incurred costs totalling Kshs.46,634,000 on maintenance and daily running of the project operations. However, the following unsatisfactory matters were noted:

- (i) The Project has been reporting losses over the years while a similar livestock enterprise under ADC is reporting profits.
- (ii) The current account balance of Kshs.46,634,000 was not supported by demand notes to the parent Ministry or State Department of Livestock and as such it was not possible to confirm the validity and accuracy of the debt.
- (iii) The Project did not prepare financial statements during the year and as a result it is not clear how the operations overheads were apportioned between ADC and the National Livestock Project.

10. Rental Revenue from Facilities

(i) Lack of Valuation Reports for the Leases

As disclosed under Note 4 to the financial statements, the consolidated statement of financial performance reflects an amount of Kshs.30,668,000 under rental revenue from facilities for the year ended 30 June, 2020 (2019 - Kshs.32,231,000). An audit review of sampled lease agreements and receipts from lease rental revenue indicate that the Corporation has leased land to various investors in various farms in return for rental revenue as detailed below:

	Investor	Farm Unit	Lease Period	Acreage	Annual Rental Charges per Acre (Kshs.)	Total (Kshs.)
1	M/s Woragus Ltd	Mutara - Laikipia	15yrs	15,000	500.00	7,500,000
2	M/s Chester House Ltd	Mutara - Laikipia	16yrs	20,000	80.00	1,600,000
3	M/s IDMO	Galana- Kulalu	15yrs	4,000	150.00	600,000

4	Lawangiro Camel Farm Ltd	Mutara - Laikipia	15yrs	11,000	150.00	1,650,000
5	M/s Arafco Agricultural Integration	Galana- Kulalu	16yrs	100,000	200.00	20,000,000
6	M/s Braken Agricultural Ltd	Galana- Kulalu	16yrs	100,000	300.00	30,000,000
7	M/s Bush Land Ltd	Galana- Kulalu	15yrs	95,000	200.00	19,000,000
8	M/s National Irrigation Board	Galana- Kulalu	5yrs	20,000	3,000.00	60,000,000
			Total	365,000		140,350,000

However, the lease agreements and receipts were not supported by lease valuation reports. Further, there was no Board Policy to guide on the lease charges which ranged from Kshs.80.00 to Kshs.3,000 per acre annually.

(ii) Failure to Comply with Contract terms on Land Use

The Corporation entered into a contract agreement with a firm for plantation of macadamia trees in isolation or buffer land on 3,000 acres at Ndabibi as a Joint Venture on 13 May, 2013. However, the firm failed to deliver and instead of terminating the contract, Ndabibi farm was substituted with 1,000 acres of land at Namandala farm contrary to the terms and conditions of the contract that required macadamia trees to be planted in isolation or buffer land at Ndabibi and not in an arable seed production land at Namandala farm.

Further, the Corporation entered into an agreement with another firm to establish a macadamia enterprise at Japata Complex ADC farm. The contract stated that the Company was to provide funds and seedlings while the Corporation was to offer land and management expertise. According to the agreement the firm was to source for the market and recover her investment at a rate of 10% of sales made on harvested macadamia. However, during an audit inspection carried out in the month of March, 2021, it was observed that the Corporation had started harvesting the crop. However, an invoice indicating the value of the harvested macadamia. The firm remitted an amount of Kshs.45,000 but the Corporation could not relate the money received to any given delivery.

(iii) Extraction of Unquantified Murram at ADC Farms

The Corporation entered into a contract agreement with M/s China State Construction Engineering Corporation for murram extraction at Japata, Suam, Nai, Sabwani, Namandala and Ol ngantongo farms for the ongoing construction of 80km road from Suam Kenya-Uganda border to Kitale. However, these contracts were irregularly signed by the Acting Regional Manager contrary to Section 135 (1) and (4) of the Public Procurement and Asset Disposal Act (2015), which require the Accounting Officer of a public entity to sign.

Further, the contract did not indicate the quantity of murram to be extracted at these farms and how much was to be paid for each tonne hence no revenue raised from this activity.

11. Management Fees

The consolidated statement of financial performance excludes an amount of Kshs.2,367,660 in respect of management fees for the year ended 30 June, 2020 (2019 - Kshs.2,367,660). The excluded amount is attributed to an agreement entered into on 8 March, 2017 between Agricultural Development Corporation (ADC) and National Disaster Management Authority (NDMA) on "commercial destocking for drought mitigation".

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

12. Loss of Fertilizer

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

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

Under the circumstances, and until the matter is concluded, the recovery of the loss of Kshs.24,447,500 remains doubtful.

13. Cash and Cash Equivalents

(a) Loss of Cash at Lanet Complex Farm

Examination of the trial balance maintained at Lanet Complex farm – Nakuru revealed loss of cash amounting to Kshs.151,146 for which no recovery has been made. The Management explained that this was cash stolen in transit from the bank to the farm. Further, no explanation was provided on why suitable transport and security was not provided at the time of cash withdrawal and transit to the farm. In addition, no insurance claim has been lodged for compensation from the Insurer.

(b) Bank Reconciliation at Suam Orchard and Lanet Complex Farm

Examination of the bank reconciliation statement as at 30 June, 2020 for Suam Orchard farm revealed an amount of Kshs.270,521 in respect of cash in hand. However, no

supporting document was provided for audit verification to confirm existence of the cash as that date.

Further, examination of bank reconciliation statements as at 30 June, 2020 maintained at Lanet Complex farm – Nakuru revealed that, between 31 August 2019 to 31 January 2020, a total of Kshs.1,079,177 was not banked intact by the farm.

14. Illegal Grazers at Mutara Farm – Laikipia County

Review of the Internal Auditors' Report dated 7 September, 2020 indicated that Mutara station is faced with the problem of illegal grazers, who also include some of the Corporation's staff. The report further indicated that the seven staff members kept a total of 413 animals within the ranch. However, it is not clear whether the Corporation's policy permit staff to compete with the Corporation while still in employment.

15. Inventories

As disclosed in Note 22 to the financial statements, the consolidated statement of financial position reflects a balance of Kshs.249,384,000 under inventories, which include harvested crops with a value of Kshs.54,289,000. However, the harvested crops did not include an amount of Kshs.9,381,130.08 as reflected in the stock take sheet summary for Feedmill and Driers Unit.

Under the circumstances, accuracy and completeness of the inventories balance of Kshs.249,384,000 at 30 June, 2020 could not be confirmed.

16. Undisclosed Material Uncertainty in Relation to Sustainability of Services

The consolidated statement of financial position reflects accumulated deficit of Kshs.798,577,000 as at 30 June, 2020 (2019: accumulated deficit of Kshs.722,282,000). Further, the current liabilities of Kshs.1,355,363,000 exceeded the current assets of Kshs.1,013,159,000, resulting in a negative working capital of Kshs.342,204,000. The Corporation is, therefore, technically insolvent and its continued sustainability of services is dependent upon support from the National Government and its creditors. However, this material uncertainty has not been disclosed in the financial statements.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Agricultural Development Corporation (ADC) and its Subsidiary Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Under-Collection of Revenue

The statement of comparison of budget and actual amounts reflects an under collection of revenue of Kshs.1,045,409,000. This represents 45.02 % of the gross estimated receipts of Kshs.2,321,967,000. The under collection of revenue was attributed to failure to collect income from services units-Kshs.72,662,000, farming income-Kshs.903,986,000, rent/eco-tourism-Kshs.73,642,000, investment income-Kshs.23,100,000 and other incomes-Kshs.18,219,000. The Corporation's resources were therefore not efficiently and effectively used hence, the failure to meet revenue targets for these items during the financial year under review.

2. General Expenses

(i) Irregular Payment of Legal Expenses

Examination of legal records indicate legal case No. MD/59/1/C/AA – Nakuru HCC petition No. 21 of 2012- Ajijik Group Ranch Vs Agricultural Development Corporation had been finalized and judgement issued in favour of the Corporation. The law firm vide a letter Ref. EMJ00/14/ADC/10 dated 18 January, /2018 demanded a legal fee of Kshs.46,400,000.00 inclusive of 16% VAT. However, in computing the legal fees, the law firm based their legal fee on claims that the land which was the subject matter in the case measures 3,000 acres with an estimated value of Kshs.1 million per acre totalling to Kshs.3 billion. The Corporation has so far paid legal fees amounting to Kshs.39,854,000 which is not supported by a valuation report based on surveyed acreage of the land in question hence not justifiable. Further, the law firm is not listed in the prequalified list of legal services providers to the Corporation.

(ii) Irregular Hire and Payment for Auctioneers Services

As reported in the previous year, the Management of the Corporation procured the services of an Auctioneer despite being aware that the Company did not have the capacity and a valid class B license to execute warrants as auctioneers, as required under the Auctioneers Act. Further, the Corporation made irregular payments vide cheque numbers 011328 and 011355 for Kshs.3,500,000 and 1,000,000 respectively, totalling Kshs.4,500,000 to the Auctioneer.

The payment of Kshs.4,500,000 to the Auctioneer was authorized by the Managing Director, approved by the Financial Controller while the Corporation Secretary endorsed the payment. As a result, the Board of Directors terminated the services of the three

officers with effect from 4 July, 2019. The Board also recommended that the amount of Kshs.4,500,000 be recovered from the three officers but Management has not demonstrated or provided evidence of implementation of the Board's resolution.

3. Employee Costs

(i) Payment of Irregular and Illegal Acting Allowance

Examination of the payroll summary revealed that an amount of Kshs.1,670,185.25 was paid as acting allowance to employees in an acting capacity for more than six (6) months. This is contrary to Section C.14(1) of Public Service Commission Human Resource Policies (2016) which states that when an officer is eligible for appointment to a higher post and is called upon to act in that post pending advertisement of the post, he is eligible for payment of acting allowance at the rate of twenty percent (20%) of his substantive basic salary but not for more than six (6) months.

Further, the Management also contravened Section 9.10 of the Agricultural Development Corporation's Human Resource Manual, which requires that an acting appointment should not exceed a period of 6 months. If it does, the employee is to be confirmed in the post after an appraisal or revert to his or her former position. However, in certain circumstances, the acting position may be extended but should not exceed one year.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

Board Representation in Other Companies

Although the Corporation control over 50% shareholding in four (4) out of the eight (8) companies as detailed below, the composition of the Board in the companies does not reflect this fact. Management has explained that only the Chief Executive Officer represents the Corporation in the Boards of the four (4) companies.

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

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

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and the Board of Directors

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

In preparing the financial statements, Management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of intention to terminate the Corporation or to cease operations.

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

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

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Corporation monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems

are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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


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

fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

02 February, 2022

AGRICULTURAL DEVELOPMENT CORPORATION

XI. CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30TH JUNE 2020

	Note	2019-2020 KSH '000'	2018-2019 KSH '000'
Revenue from Non-Exchange transactions			
Revenue Grants	1	30,000	-
Revenue from exchange transactions			
Service units income	2	93,149	55,155
Farming Income	3	1,044,746	1,281,022
Rental revenue from facilities	4	30,668	32,231
Investments Income	5	77,400	19,400
Other Income	6	30,595	12,880
		1,276,558	1,400,688
		1,306,558	1,400,688
Expenses			
Employee costs	7	529,320	505,207
Depreciation and amortization expense	8	147,888	93,644
Repairs and maintenance	9	36,597	40,185
Subscription & Donations	10	566	648
Contracted services	11	28,856	35,871
General expenses	12	663,060	622,268
Board expenses	13	25,417	39,786
Finance costs	14	39,169	47,003
		1,470,873	1,384,613
Operating Profit/Loss		(164,315)	16,075
Other gains/(losses)			
unrealized gain on changes in Biological Asset	15	116,970	35,596
Loss due to death of Livestock	16	(36,210)	(12,331)
Loss on foreign exchange transactions	17	9	(650)
Gain on sale of fixed assets	18	4,671	-
Surplus before tax		(78,875)	38,689
Taxation		-	-
Surplus for the year		(78,875)	38,689

AGRICULTURAL DEVELOPMENT CORPORATION

XII. CORPORATION STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30TH JUNE 2020

	Note	2019-2020 KSH '000'	2018-2019 KSH '000'
Revenue from Non-Exchange transactions			
Revenue Grants	1	30,000.0	-
Revenue from exchange transactions			
Service units income	2	93,149	55,155
Farming Income	3	1,044,746	1,281,022
Rental revenue from facilities	4	30,668	32,231
Investments Income	5	77,400	19,400
Other Income	6	26,027	9,415
		1,271,990	1,397,223
		1,301,990	1,397,223
Expenses			
Employee costs	7	528,506	502,849
Depreciation and amortization expense	8	147,829	93,567
Repairs and maintenance	9	36,597	40,185
Subscription & Donations	10	566	648
Contracted services	11	28,856	35,871
General expenses	12	662,940	622,148
Board expenses	13	24,331	39,786
Finance costs	14	38,445	46,488
		1,468,070	1,381,543
Operating Profit/Loss		(196,080)	15,680
Other gains/(losses)			
Unrealize gain on changes in Biological Assets	15	116,970	35,596
Loss due to death of Livestock	16	(36,210)	(12,331)
Loss on foreign exchange transactions	17	9	(650)
Gain on sale of fixed assets	18	4,671	
Surplus before tax		(80,640)	38,294
		-	-
Surplus for the year		(80,640)	38,294

The notes set out on pages 19 to 26 form an integral part of the Financial Statements

AGRICULTURAL DEVELOPMENT CORPORATION

XIII. CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 30TH JUNE 2020

Assets

Current assets

	Note	2019-2020 KSH '000'	2018-2019 KSH '000'
Cash and cash equivalents	19	108,213	228,950
Receivables from exchange transactions	20	608,714	575,834
Current Account with National Live stock Project	21	46,848	46,634
Inventories	22	249,384	225,516
		1,013,159	1,076,934

Non-current assets

Property, plant and equipment	23(a)	1,480,000	1,313,035
Capital Work In progress	23(c)	140,737	123,145
Investments	24	467,283	467,283
Biological Assets	25	1,507,165	1,626,211
		3,595,185	3,529,673

Liabilities

Current liabilities

Trade & other payables-exchange transactions	26	1,266,351	1,230,097
Borrowings	28(a)	89,012	124,323
		1,355,363	1,354,420

Non-current liabilities

Borrowings	28(b)	206,296	229,207
		206,296	229,207

Net assets

		1,561,659	1,583,627
Grants Reserves	29	3,384,786	3,284,786
Capital Reserve	30	12,775	12,775
Reserves	31	447,701	447,701
Accumulated (Deficit)		(798,577)	(722,282)
		3,046,685	3,022,980
		4,608,344	4,606,607

The financial statements set out in pages 1 to 8 and notes thereof were approved by the Board of Directors on 28.09.2020 and signed on behalf of by:

Managing Director

Name: M. Shamed

Sign: [Signature]

Date: 14/4/21

Head of finance

Name: J. L. Kikonyi

ICPAK No. 15114

Sign: [Signature]

Date: 14/4/21

Chairman

Name: Nicholas Salat

Sign: [Signature]

Date: 14.4.21

AGRICULTURAL DEVELOPMENT CORPORATION

XV. LANDS LTD STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2020

Assets	Note	2029-2020 KSH '000'	2018-2019 KSH '000'
Current assets			
Cash and cash equivalents	19	22,660	25,184
Receivables from exchange transactions	20	20,305	20,434
		42,965	45,618
Non-current assets			
Property, plant and equipment		483,994	484,053
Current Account with Parent Co.	27	540,302	535,704
		1,024,296	1,019,757
		1,067,261	1,065,375
Liabilities			
Current liabilities			
Trace & other payables -exchange transactions	26	2,800	2,680
Net assets			
Equity			
Authorized and issued fully paid 1,000 Ord. Shares @20		20	20
Grants Reserves		55,694	55,694
Capital Reserve	30	12,775	12,775
Reserves	31	447,701	447,701
Accumulated surplus/ (Deficit)		548,271	546,505
		1,064,461	1,062,695
		1,067,261	1,065,375

The financial statements set out in pages 1 to 8 and notes thereof were approved by the Board of Directors on 29.09.2020 and signed on behalf of by:

Managing Director

Name:

[Signature]

Sign

[Signature]

Date:

Head of finance

[Signature]

ICPAK No. 15114

[Signature]

14/04/21

Chairman

[Signature]

[Signature]

14.4.2021

AGRICULTURAL DEVELOPMENT CORPORATION

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30TH JUNE 2020

	Equity (Grants) Kshs '000	Capital Reserves Kshs '000	Revaluation Reserve Kshs '000	Profit/ Loss Kshs '000	Total Kshs '000
Balance as at 30th June 2018	2,784,787	12,775	447,701	(760,973)	2,484,29
Addition	500,000	-	-	-	500,00
Transfers to accumulated surplus/Deficit	-	-	-	41,271	41,27
Balance as at 30 June 2019	3,284,787	12,775	447,701	(719,702)	3,025,56
Addition	100,000	-	-	-	100,00
Transfers to accumulated surplus/Deficit	-	-	-	(78,875)	(78,87
Balance as at 30 June 2020	3,384,787	12,775	447,701	(798,577)	3,046,68

AGRICULTURAL DEVELOPMENT CORPORATION

XVI. STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30TH JUNE 2020

	Note	2019-2020 KSHS '000'	2018-2019 KSHS '000'
Cash flows from operating activities			
Surplus for the year		(78,877)	38,689
Adjustments for:			
Depreciation of property and equipments	23(a)	147,888	93,644
Gain on sale of fixed assets	18	4,671	-
Revaluation in fair value of biological assets	15	(121,496)	(24,582)
Loss due to death of Animals	16	36,210	
Operating profit before working capital changes		(11,604)	107,751
Increase/(decrease) in:			
Debtors	20	(32,880)	(18,156)
Inventories	22	(23,871)	(24,124)
Biological assets	25	-	(198,821)
Injection to National livestock project	21	(214)	1,124
Creditors	26	36,252	(118,605)
		(20,713)	(358,582)
Cash generated from operations		(32,318)	(250,832)
Cash flows from investing activities			
Capital WIP	23(c)	(17,591)	173,781
Purchase of Fixed assets	23(a)	(176,660)	(259,824)
Purchase of Livestock		(33,825)	(20,440)
Proceeds from sale of assets		9,657	-
Net cash flows used in investing activities		(218,419)	(106,483)
Cash flows from financing activities			
Borrowings	28	-	3,862
Government Grants	29	130,000	500,000
		130,000	503,862
Net increase in cash and cash equivalents		(120,737)	146,547
Beginning of period		228,950	82,403
Net increase in cash and cash equivalents		(120,737)	146,547
Cash at the end		108,213	228,950

AGRICULTURAL DEVELOPMENT CORPORATION

XVII. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL FOR THE YEAR ENDED 30TH JUNE 2020

	Budget	Actual	Variance
	2019-2020	2019-2020	
	Kshs '000	Kshs '000	Kshs '000
Revenue			
Revenue from services units	165,811	93,149	(72,662)
Farming Income	1,948,732	1,044,746	(903,986)
Rent/ Eco-Tourism	104,310	30,668	(73,642)
Investment Income	54,300	77,400	23,100
other incomes	48,814	30,595	(18,219)
	2,321,967	1,276,558	(1,045,409)
Expenses			
Employees cost	696,399	529,320	(167,079)
Depreciation and amortaization	91,338	147,888	56,550
Repair and maintanance	43,689	36,597	(7,092)
Subscription & Donation	1,656	566	(1,090)
Contracted Services	82,314	28,856	(53,458)
General Expences	1,197,470	663,060	(534,410)
Board Expenses	30,204	25,417	(4,787)
Finance Costs	36,452	39,169	2,717
Total expenditure	2,179,522	1,470,873	(708,649)

AGRICULTURAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

A. Statement of compliance and basis of preparation

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

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

Reporting Entity

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

Property, Plant and Equipment

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

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

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

Taxation

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

Harvested crops and cultivation

Harvested crops and cultivation are valued at net realisable value. Costs comprise expenditure incurred in normal course of business including direct material cost, labour and production overheads wherever

appropriate. Net realisable value is the price at which the stocks can be realised in normal course of business, after allowing for costs of realisation.

Notes to Financial Statements (Continued)

B. Summary of significant accounting policies

Revenue recognition

i) Revenue from non-exchange transactions

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

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

Government Grants

Recurrent Grant

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

Development Grant

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

ii) Revenue from exchange transactions

Rendering of services

The Corporation has engineering service unit deal with repair of equipment's, transport and fabrication of farm implements, during the year Ksh 32.9M was realized.

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

Farming Income

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

Dividends and Other external Investments

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

Notes to Financial Statements (Continued)

Rental income

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

b) Budget information

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

c) Investment property

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

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

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

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

d) Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the Corporation recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

e) Leases

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

Notes to Financial Statements (Continued)

f) Intangible assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

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

i) Financial liabilities

Initial recognition and measurement

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

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

Loans and borrowing

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

IPSAS 29.65

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

g) Inventories

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

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

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

AGRICULTURAL DEVELOPMENT CORPORATION

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost. Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Notes to Financial Statements (Continued)

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

h) Provisions

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

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

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

i) Contingent liabilities

Contingent liabilities

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

Contingent assets

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

j) Nature and purpose of reserves

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

k) Changes in accounting policies and estimates

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

Notes to Financial Statements (Continued)

l) Employee benefits

Retirement benefit plans

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

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

m) Borrowing costs

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

n) Related parties

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

o) Service concession arrangements

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

p) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known

Notes to Financial Statements (Continued)

amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprest and advances to authorised staff which were not surrendered or accounted for at the end of the financial year.

Trade and other receivables

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

r) Trade and other payable

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

s) Biological assets

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

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

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

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

(i) *Consumable biological assets*

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

(ii) *Bearer biological assets*

Other biological assets are classified as bearer biological assets.

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

u) Comparative figures

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

Notes to Financial Statements (Continued)

v) Significant judgments and sources of estimation uncertainty

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

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and

liabilities within the next financial year, are described below. The Corporation based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Corporation. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

Useful lives and residual values

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

- The condition of the asset based on the assessment of experts employed by the Corporation
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

w) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended 30th June 2020.

x) Financial Risk management

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

AGRICULTURAL DEVELOPMENT CORPORATION

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

Notes to Financial Statements (Continued)

i) Market Risk

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

a) Interest rate risk

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

b) Exchange risks

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

ii) Liquidity Risk

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

iii) Operational risk

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

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

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

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

AGRICULTURAL DEVELOPMENT CORPORATION

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

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

AGRICULTURAL DEVELOPMENT CORPORATION

Notes to Financial Statements (Continued)

1. Income from Non-Exchange transaction

The Corporation in the year under review received Ksh. 30M under recurrent grants from the Ministry of Agriculture, Livestock and Fisheries to purchase Bull in the newly established ADC Livestock Genetics Centre

	<u>Consolidated</u>		<u>Company</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>
State Department of Livestock	30,000	-	30,000	-
Total	30,000	-	30,000	-

2. Service units incomes

	<u>Consolidated</u>		<u>Company</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>
Sale of Feed	60,220	39,803	60,220	39,803
Contract Income	26,289	10,136	26,289	10,136
Transport Income	6,640	5,216	6,640	5,216
Total	93,149	55,155	93,149	55,155

3. Farming Income

	<u>Consolidated</u>		<u>Company</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>
Sale of Commercial maize	102,353	282,749	102,353	282,749
Sale of seed maize	537,352	633,214	537,352	633,214
Other Farm produce	172,060	150,651	172,060	150,651
Sale of steers	68,669	64,033	68,669	64,033
Sales of in-calf Heifer	3,435	9,160	3,435	9,160
Other Livestock	34,284	23,126	34,284	23,126
Sale of Milk	70,421	74,830	70,421	74,830
Sale of other animal products	48,285	20,296	48,285	20,296
Sale of Hay	7,880	22,792	7,880	22,792
Grazing fees	7	171	7	171
Total	1,044,746	1,281,022	1,044,746	1,281,022

Note; sale of seed maize include kshs. 31,095,680 of ADC maize variety and Kshs.506,256,593 to Kenya Seed Co. respectively during the year.

4. Rental Revenue from

	<u>Consolidated</u>		<u>Company</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>
Lease Rental	28,691	32,231	28,691	32,231
Rent of Property	1,977	-	1,977	-
Total	30,668	32,231	30,668	32,231

5. Investments income

	<u>Consolidated</u>		<u>Company</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>
Proceeds from Development house	77,400	19,400	77,400	19,400
Total	77,400	19,400	77,400	19,400

AGRICULTURAL DEVELOPMENT CORPORATION

6. Other income

	Consolidated		Company		Lands Ltd	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>
Training Fees AI center	-	755	-	756	-	-
Eco-Tourism	5,261	-	5,261	-	-	-
Miscellaneous Income	25,334	12,124	20,766	8,659	4,568	3,465
Total	30,595	12,880	26,027	9,415	4,568	3,465

Miscellaneous Income in Lands Ltd relates to survey fees initially paid by the Corporation but recovered from allottees upon payment of allotment fees

7. Employee costs

	Consolidated		Company		Lands Ltd	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>
Salaries	107,132	107,778	106,746	106,736	386	1,042
Wages	186,051	164,212	186,051	164,212	-	-
NSSF	2,779	2,269	2,776	2,263	3	6
Leave Expenses	1,774	1,491	1,769	1,478	5	12
House allowance	59,166	60,031	58,906	59,241	260	790
Commuter allowance	10,260	10,427	10,169	10,184	91	243
Responsibility allowance	9,353	10,784	9,353	10,684	-	100
Gratuities	12,829	15,048	12,811	15,048	18	-
Terminal dues	11,100	1,509	11,100	1,509	-	-
Administrative wages	65,689	60,457	65,689	60,457	-	-
Pension contribution	10,479	11,298	10,428	11,134	51	164
Acting Allowance	1,747	680	1,747	680	-	-
Hardship Allowance	2,011	2,317	2,011	2,317	-	-
Duty Allowance	3,027	2,802	3,027	2,802	-	-
Education & training	1,940	1,272	1,940	1,272	-	-
Medical expenses	10,555	20,065	10,555	20,065	-	-
Free Issues to staff	3,929	6,596	3,929	6,596	-	-
Travel, accomodation, subsistence and other	29,499	26,172	29,499	26,172	-	-
Total	529,320	505,207	528,506	502,849	814	2,358

AGRICULTURAL DEVELOPMENT CORPORATION

Notes to Financial Statements (Continued)

8. Depreciation and amortization expense

	Consolidated		Company		Lands Ltd	
	2020	2019	2020	2019	2020	2019
	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000
Property, plant and equipment	147,888	93,644	147,829	93,567	59	77
Total	147,888	93,644	147,829	93,567	59	77

9. Repairs and maintenance

	Consolidated		Company		Lands Ltd	
	2020	2019	2020	2019	2020	2019
	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000
Property	4,954	5,911	4,954	5,911	-	-
Machinery & Equipment	21,304	29,175	21,304	29,175	-	-
Vehicles	10,339	-	10,339	-	-	-
Total	36,597	40,185	36,597	40,185	-	-

10. Subscription and Donations

	Consolidated		Company		Lands Ltd	
	2020	2019	2020	2019	2020	2019
	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000
Donations	566	648	566	648	-	-

11. Contracted services

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

	Consolidated		Company		Lands Ltd	
	2020	2019	2020	2019	2020	2019
	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000
Contracts Costs	28,856	35,871	28,856	35,871	-	-
Total	28,856	35,871	28,856	35,871	-	-

AGRICULTURAL DEVELOPMENT CORPORATION

Notes to Financial Statements (Continued)

12. General Expenses

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

	Consolidated		Company		ds	
	2020 Shs 000	2019 Shs 000	2020 Shs 000	2019 Shs 000	2020 Shs 000	Shs
Advertising, Show and publications	19,391	8,260	19,391	8,260	-	
Audit fees	1,186	1,195	1,066	1,075	120	
Consultion Fees	1,647	-	1,647	-	-	
Consumables	14,481	7,352	14,481	7,352	-	
Electricity & Water	12,348	11,123	12,348	11,123	-	
Fuel and oil	87,616	85,544	87,616	85,544	-	
Insurance	3,670	3,123	3,670	3,123	-	
Legal expenses	61,068	21,396	61,068	21,396	-	
Licenses and cesses	5,509	5,188	5,509	5,188	-	
Fertilizer	121,830	126,004	121,830	126,004	-	
Herbicides, Insecticides ,Veterinary & Other Chemical	112,476	110,669	112,476	110,669	-	
Feed stuffs & Menerals	50,481	55,215	50,481	55,215	-	
Packing materials	32,071	15,381	32,071	15,381	-	
Seed	37,436	32,269	37,436	32,269	-	
Raw Marterials -Feedmill	42,770	34,459	42,770	34,459	-	
Postage & Telephone	3,982	3,538	3,982	3,538	-	
Printing and stationery	4,935	3,723	4,935	3,723	-	
Rent & Rates	629	3,858	629	3,858	-	
Security costs	728	741	728	741	-	
Royalties(Seed)	1,979	1,439	1,979	1,439	-	
Inspection Fees	8,867	5,516	8,867	5,516	-	
Training Costs- AI Center	210	570	210	570	-	
Professional Fees	751	306	751	306	-	
Fines and penalties	5	13	5	13	-	
Transport	31,741	570	31,741	570	-	
Research Expenses	159	187	159	187	-	
Milk To Calves	3,307	3,860	3,307	3,860	-	
Other	1,787	78,186	1,787	78,186	-	
Total	663,060	622,268	662,940	619,566	120	

AGRICULTURAL DEVELOPMENT CORPORATION

Notes to Financial Statements (Continued)

13. Board expenses	Consolidated		Company		Lands Ltd	
	2020	2019	2020	2019	2020	2019
	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000
Emoluments	17,330	30,938	16,585	30,938	745	-
Milage/Travelling	7,370	7,964	7,029	7,964	341	-
Insurance	652	800	652.00	800	-	-
Airtime	65	84	65.00	84	-	-
Total	25,417	39,786	24,331	39,786	1,086	-

14. Finance Costs	Consolidated		Company		Lands Ltd	
	2020	2019	2020	2019	2020	2019
	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000
Bank charges	2,040	1,488	1,316	973	724	515
Interest	37,129	45,515	37,129	45,515	-	-
Total	39,169	47,003	38,445	46,488	724	515

15. Change in Biological Assets

In line with IPSAS No.27, the Corporation biological assets increased in value by Kshs. 117M during the year arising from changes in fair value. The Corporation adopts the market value less cost to sell valuation model

16. During the year under review the Corporation lost Livestock worth 36M through death which is considered as a direct loss as follows

	Consolidated		Company		Lands Ltd	
	2020	2019	2020	2019	2020	2019
	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000
Loss due to death of livestock	36,210	12,331	36,210	12,331	-	-

17. The corporation has a USD account at KCB as at the end of the year the Corporation made a Gain of Kshs 9,208 due to forex exchange difference.

18. Gain on sale of fixed assets relates to surplus realized on disposal of fixed assets having taken the cost of these assets less accumulated depreciation.

AGRICULTURAL DEVELOPMENT CORPORATION

Notes to Financial Statements Continued

AGRICULTURAL DEVELOPMENT CORPORATION

19. Cash and Cash Equivalents	Consolidated		Company		Lands Ltd	
	2020	2019	2020	2019	2020	2019
19 a)Bank	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000
Name of the Bank						
Consolidated Bank	24,299	114,605	24,299	114,605	-	-
National Bank	24,048	56,014	1,388	30,830	22,660	25,184
Kenya Com Bank	59,532	57,661	59,532	57,661	-	-
	107,879	228,280	85,219	203,096	22,660	25,184
19b)Cash-in-hand	334	669	334	669	-	-
Total	108,213	228,950	85,553	203,766	22,660	25,184

20. Receivables from Exchange Transactions

	Consolidated		Company		Lands Ltd	
	2020	2019	2020	2019	2020	2019
	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000
Trade Debtors						
Trade Debtors	499,029	474,892	478,709	454,443	20,320	20,449
Specific provision	(52,499)	(52,499)	(51,962)	(51,962)	(537)	(537)
General Provision	(4,909)	(4,909)	(4,909)	(4,909)	-	-
Total Current Receivables	441,621	417,484	421,838	397,572	19,783	19,912
Non- Trade Debtors						
Non - Trade Debtors	167,093	158,350	166,571	157,827	522	522
Total	608,714	575,834	588,409	555,399	20,305	20,434

21. Current account with NLP

The Government provided funds for emergency Livestock offtake in arid areas. During the year the Corporation incurred Kshs.46,847,731 on maintenance and daily running of the projects operation.

	2020	2019
	Kshs.'000'	Kshs.'000'
NLP Current Account	244,848	244,634
Grants	(198,000)	(198,000)
TOTAL	46,848	46,634

AGRICULTURAL DEVELOPMENT CORPORATION

Notes to Financial Statements (Continued)

22. Inventories	<u>2020</u>	<u>2019</u>
	<u>Kshs.'000'</u>	<u>Kshs.'000'</u>
Building materials	2,241	1,369
Fencing & Water Supplies	8,822	7,865
Fertilizer	19,243	7,698
Feedstuffs & Minerals	2,443	1,437
Herbicides & Insecticides	27,873	28,797
Packing Materials	3,381	2,870
Petroleum Products	2,107	1,363
Machinery & Equipment Spares	7,007	7,230
Vehicles & Tractor Spares	10,242	9,943
Veterinary Products	63,160	41,471
Seeds	27,115	39,426
Sundries	4,492	1,682
Feedmill Raw Materials	10,713	4,140
Feedmill Finished products	9,381	-
Stationery	1,057	-
Laboratory Chemicals	231	-
Bean Seed	439	-
Embroy Transfer	336	336
Harvested Crops	54,289	75,076
Provision for Obsolete stock	(5,188)	(5,188)
Total	<u>249,384</u>	<u>225,516</u>

AGRICULTURAL DEVELOPMENT CORPORATION

Notes to Financial Statements (Continued)

23(a). PROPERTY PLANT & EQUIPMENT

COST	Leased Farms		Farms Managed		Fencing Water		Farm Equipment		Furniture		Motor Vehicles		Small Tools		Land		Totals		
	Kshs '000'	Shs	Kshs '000'	Shs	Buildings	Supply	Kshs '000'	Shs	Kshs '000'	Shs	Kshs '000'	Shs	Kshs '000'	Shs	Kshs '000'	Shs	Kshs '000'	Shs	
At 1st July 2018	454	521,513	576,594	86,233	331,164	49,688	441,901	4,234	12,345	2,024,									
Additions	-	-	68	89,835	749	168,965	125	259,											
At 30th June 2019	454	521,513	576,594	86,301	420,999	50,437	610,866	4,359	12,427	2,283,									
Additions	-	-	10,789	67,868	10,782	97,738	75	187,											
Adjustments	-	-	88,822	29	71,700	78	9,795	(75)											
Disposal	-	-	-	(20,157)	-	(85,808)	-	(105,											
At 30th June 2020	454	521,513	676,205	86,527	540,410	61,297	632,591	4,359	12,427	2,535,									
Depreciation																			
At 1st July 2018	213	-	89,766	66,700	278,258	43,572	410,394	4,158	8,348	901,									
Charge for the year	-	-	27,242	1,967	36,221	1,815	25,426	158	816	93,									
At 30 June 2019	213	-	117,008	68,667	314,479	45,387	435,820	4,316	9,164	995,									
Adjustments	7	-	(2,901)	(7)	(7,673)	(442)	24,692	(58)		13,									
Disposal	-	-	-	-	(18,352)	-	(82,425)	-		(100,									
Charge for the year	6	-	28,105	1,787	50,391	3,270	63,626	51	653	147,									
At 30th June, 2020	226	-	142,212	70,447	338,845	48,215	441,713	4,309	9,817	1,055,									
Net book values																			
At 30th June 2020	228	521,513	533,993	16,080	201,565	13,082	190,878	51	2,610	1,480,									
At 30th June 2019	241	521,513	539,979	19,457	144,885	7,261	76,278	158	3,263	1,313,									

AGRICULTURAL DEVELOPMENT CORPORATION

Notes to Financial Statements (Continued) 23(b). PROPERTY PLANT & EQUIPMENT

COST	Farms managed by ADC Kshs.000'	Buildings Kshs.000'	Fencing Supply Kshs.000'	Water Kshs.000'	Farm Equipment Kshs.000'	Furniture & Equipment Kshs.000'	Motor Vehicles Kshs.000'	Small Tools Kshs.000'	Land Reclamation Kshs.000'	Totals Kshs.000'
At 1st July 2018	37,910	576,594	86,233	331,166	49,692	436,513	4,234	12,345	1,534,61	
Adjustments	-	-	-	-	-	-	-	-	-	-
Additions	-	-	68	89,835	749	168,965	125	82	259,8	
Disposals	-	-	-	-	-	-	-	-	-	-
At 30th June 2019	37,910	576,594	86,301	421,001	50,441	605,478	4,359	12,427	1,794,51	
Adjustments	-	88,822	29	71,700	78	9,795	(75)	-	170,3	
Additions	-	10,789	197	67,868	10,782	97,728	75	-	187,4	
Disposals	-	-	-	(20,157)	-	(85,808)	-	-	(105,9	
At 30 June 2020	37,910	676,205	86,527	540,412	61,301	627,193	4,359	12,427	2,046,31	

DEPRECIATION										
At 1st July 2018	-	89,477	67,780	278,219	43,573	404,405	4,161	8,348	895,90	
Charge for the year	-	27,242	1,967	36,221	1,815	25,349	158	816	93,50	
Disposals	-	-	-	-	-	-	-	-	-	
At 30th June 2019	-	116,719	69,747	314,440	45,388	429,754	4,319	9,164	989,51	
Adjustments	-	(2,886)	(115)	(6,907)	(442)	24,219	(60)	-	13,80	
Disposal	-	-	-	(18,352)	-	(82,425)	-	-	(100,7	
Charge for the year	-	28,119	1,690	50,072	3,271	63,911	50	653	147,70	
At 30th June 2020	-	141,952	71,322	339,253	48,217	435,459	4,309	9,817	1,050,31	

NET BOOK VALUE

At 30th June 2020	37,910	534,253	15,206	201,159	13,084	191,734	50	2,610	996,00
At 30th June 2019	37,910	459,875	16,553	106,559	5,049	181,113	41	3,263	828,91

Notes to Financial Statements (Continued)

23(c). Capital Work In Progress

Relates to in-complete capital works .

	<u>2020</u>	<u>2019</u>
	<u>Kshs.'000'</u>	<u>Kshs.'000'</u>
Eco House (ADC Chorlim)	1,022	1,022
Eco House (ADC Nai)	6,540	2,329
Eco House (ADC Olingantongo)	8,705	8,730
Eco House (ADC Sabwani)	55,349	51,897
Maize Shade (ADC Feedmill)	1,157	1,157
Dam ans Store (ADC Suam Orchards)	24,876	23,395
Katuke	11,514	11,514
Kitchen (ADC A I Centre)	233	233
Kiswani	1,042	-
Lanet	140	-
Ndabibi	555	-
Nitrogen plant -LGC	3,403	2,712
Shade (ADC Engineering Services)	4,803	266
Office Block (ADC Molo)	3,666	3,957
Japata	2,416	1,336
Sirikwa	5,111	5,111
Namandala	935	935
Seed Unit(Construction of a Godown)	9,270	8,549
	<u>140,737</u>	<u>123,145</u>

24. Investments

	<u>2020</u>	<u>2019</u>
	<u>Kshs.'000'</u>	<u>Kshs.'000'</u>
Opening balance at 1 July 2018	<u>467,283</u>	<u>467,283</u>
Balance as at 30th June 2018	<u>467,283</u>	<u>467,283</u>
Balance as at 30 June 2019	<u>467,283</u>	<u>467,283</u>

25. Biological Assets

	<u>2020</u>	<u>2019</u>
	<u>Kshs.'000'</u>	<u>Kshs.'000'</u>
Beef Cattle	351,086	416,538
Dairy Cattle	177,291	179,013
Pigs	481	490
Sheep	20,421	18,020
Goats	12,566	10,583
Horses	620	760
Donkey	30	-
Breeding Dogs	67	67
Poultry	890	683
Breeding Bulls	21,470	3,712
Crops	922,243	996,347
TOTAL	<u>1,507,165</u>	<u>1,626,211</u>

Notes to Financial Statements (Continued)

26. Trade and other payables from exchange transactions

	Consolidated		Company		Lands Ltd	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Trade Creditors	716,336	812,182	716,216	812,182	120	-
Non-trade creditors	550,015	417,915	547,335	415,235	2,680	2,680
	1,266,351	1,230,097	1,263,551	1,227,417	2,800	2,680

27. Current Account- Lands Ltd

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

28.(a) Borrowings

	<u>2020</u>	<u>2019</u>
	Kshs 000	Kshs 000
(a)Total current borrowings		
KCB Term Loan	55,412	-
AFC Crop Seasonal Loan	33,600	124,323
	89,012	124,323

AFC Crop Seasonal Loan

Agricultural Finance Corporation advanced ADC a loan of Ksh. 150,000,000 Guaranteed by Corporation's land L.R No.5532 in Trans Nzoia County at an interest rate of 12% p.a. The Loan was to be services through the Corporation's share of rent proceeds from Development House which is Jointly owed by the two Corporations.

28 (b)Total non-current borrowings

	<u>2020</u>	<u>2019</u>
	Kshs 000	Kshs 000
KCB TERM LOANS	143,693	229,207
AFC Crop Seasonal Loan	62,603	
	206,296	229,207

KCB Term Loan

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

Notes to Financial Statements (Continued)

29. Grants

	<u>2020</u>	<u>2019</u>
	<u>KShs'000'</u>	<u>KShs'000'</u>
Government of Kenya	3,139,499	3,039,499
British Government	67,582	67,582
ASARECCA	1,898	1,898
NIB	11,700	11,700
UNDP	139,827	139,827
Grants to ADC	3,360,506	3,260,506
Grants to subsidiary	24,280	24,280
Consolidated	3,384,786	3,284,786

The Corporation received Kshs. 100,000,000 from the Ministry of Agriculture Livestock and Fisheries state department of Livestock for mechanization

30. Capital Reserves

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

31. Revaluation Reserve

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

32. Related Party Transaction

i) Board members of the Corporation

	Consolidated		Company		Lands	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>
Emoluments	17,330	30,938	16,585	30,938	745	-
Milage/Travelling	7,370	7,964	7,029	7,964	341	-
Insurance	652	800	652	800	-	-
Airtime	65	84	65	84	-	-
Total	25,417	39,786	24,331	39,786	1,086	-

ii) Key Management

	Consolidated		Company		Lands	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	<u>Kshs'000'</u>	<u>Kshs'000'</u>	<u>Kshs'000'</u>	<u>Kshs'000'</u>	<u>Kshs'000'</u>	<u>Kshs'000'</u>
Gross Salary	18,585	17,475	18,585	17,475	-	-
Pension	-	277	-	277	-	-
Gratuity	-	2,025	-	2,025	-	-
Total	18,585	19,777	18,585	19,777	-	-

33. Contingent Liabilities

There are certain pending legal litigations brought against the Corporation as at 30th June 2020, among them is case number HCC No.156 where the Corporation was held jointly liable with the Office of the Attorney General and ordered to pay Kshs. 100,000,000 in damages. However, the case was appealed and we await the outcome of the appeal. In the opinion of the directors and after taking appropriate legal advice, the outcome of these legal claims will not result to any significant loss beyond the amounts provided for in these financial statements and will not materially affect the Corporation's financial ability.

34. Un Accrued Debtors

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

35. Events after the reporting period

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

III. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS