

REPUBLIC OF KENYA



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KENYA NATIONAL AUDIT OFFICE



REPORT

OF

THE AUDITOR-GENERAL

ON

**HORTICULTURAL CROPS DEVELOPMENT
AUTHORITY**

**FOR THE 13 MONTHS
PERIOD ENDED 31 JULY 2014**



KENYA NATIONAL AUDIT OFFICE
P. O. Box 30084 - 00100, NAIROBI.

26 MAR 2013

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HORTICULTURAL CROPS DEVELOPMENT

AUTHORITY

FINAL ACCOUNTS

FOR THE FINANCIAL YEAR

2013/ 2014

HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

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HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

KEY ENTITY INFORMATION

The Horticultural Crops Development Authority (HCDA) is a State Authority under the Ministry of Agriculture (MOA). It was established as a State Authority under the Agricultural Act Cap 318 in 1967 through a subsidiary legislation to develop, promote and co-ordinate production and marketing of horticultural produce.

Registered Office and the Principal Place of Business

The Horticultural Crops Development Authority is a body corporate established under the Agriculture Act Cap 318. It is domiciled in Kenya.

Registered Office

The Nairobi Horticulture Centre
Mazao Road - Off JKIA Road
P. O. Box 42601-00100
NAIROBI – KENYA
Telephone - +254 – 20 - 2088469
Fax. - +254 – 20 –3597356/62
Email: md@hcda.or.ke
Website: www.hcda.or.ke

Bankers

Barclays Bank of Kenya
Queensway House
P. O. 30120 - 00100
Nairobi - Kenya

Co-operative Bank of Kenya
Nairobi Business Centre
Ngong Road
P. O. Box 19555 – 00200
Nairobi - Kenya

Independent Auditors

Auditor General
Kenya National Audit Office
Anniversary towers
P. O. Box 30084
Nairobi –Kenya

Principal Activities

The overall Mandate of the Authority is to facilitate the development, promotion, coordination and regulation of the horticultural industry in Kenya. The roles and responsibilities of the Authority are to:

HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

- a) Provide advisory services to the government and the industry to facilitate proper planning.
- b) Provide marketing intelligence information to the industry.
- c) Facilitate provision of inputs on cost recovery basis to farmers and assist in grading, storage, collection, transportation and warehousing of products destined for overseas markets.
- d) Provide specialized extension services to farmers.
- e) Facilitate marketing of horticultural produce on cost recovery basis.

The Authority developed its Strategic Plan for the period 2013-2018 and during this period it is pursuing six strategic objectives namely:

- i) To enhance the level of compliance to horticultural regulations and standards for domestic and export products from 10% in 2013 to 50% in 2018.
- ii) To enhance information dissemination and advisory to the government and industry.
- iii) To expand specialized extension services from 27 counties in 2013 to 47 counties in 2015.
- iv) To promote value addition in the subsector
- v) To diversify markets.
- vi) To increase the level of awareness on health benefits of horticultural produce by 10 counties per annum within the plan period.
- vii) To enhance horticulture research by 10% per annum in the plan period.
- viii) To have qualified and motivated staff.
- ix) To improve HCDA's corporate image by 25% within the plan period
- x) To increase the revenue base by 10% per annum within the plan period.
- xi) To enhance operational efficiency and effectiveness by 10% per annum within the plan period.

HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

REGIONAL OFFICES

Office	Location	Box. No.	Telephone
Bungoma	Bungoma Teachers Plaza	P O Box 33 Bungoma	020-2392972
Eldoret Station	KVDA Plaza	P. O. Box 95, Eldoret	053-2033458
Garissa	Maendeleo Plaza	P O Box 38 GARISSA	
Homabay	Loure Plaza	P O Box 548 HOMABAY	
Iten Office	Keiyo Sacco	P. O. Box 249, Iten	020-3508986
Kajiado	DAO	P O Box 54 KAJIADO	
Kibwezi Depot	Kibwezi Town	P. O. Box 207, Kibwezi	020-2102927
Kisii	DAO	P O Box 52 Kisii	
Kisumu	Mega City	P. O. Box 1516, Kisumu	020-2333615
Kitale	Teachers Sacco Plaza	P. O. Box 3774, Kitale	054-31356
Limuru	Nrb-Naivasha. H/way	P O Box 1264, Limuru	2701806
Machakos Depot	Nrb -Mks Road	P. O. Box 1329, Machakos	020 - 8009513
Marigat	Kiki Plaza	P O Box 171 Marigat	
Mombasa	Ambalal Hse	P. O. Box 90273, Mombasa	041-2228516
Mwea Depot	Kimbimbi	P. O. Box 99, Mwea	020-2092970
Mwingi/Kitui	DAO Office	P. O. Box 16, Kitui	044-23211
Nakuru	MOA	P. O. Box 470, Nakuru	020-2313167
Narok/Bomet	DAO Office	P. O. Box 476, Narok	050-22204
Nkubu Depot	Kariene Mkt	P. O. Box 119, Meru	020-2155006
Nyandarua	Shekainah Building	P O Box 33-20301 MIHARATI	
Sagana Depot	Nrb – Nyeri Rd	P. O. Box 207	060-46051
Taveta	Behind Taveta Mkt	P. O. Box 285, Taveta	043-5352171
Yatta	Sofia Mkt	P. O. Box 50, Matuu	020-2112606
Nyeri	County Commissioners Office – Nyeri		
Kericho Station	National Cereals & Produce Board	P.O BOX 1443, Kericho	
Busia Station	Barclays Building	P.O Box 28, Busia	
Nandi Station	KCB Building	P.O Box 99-30300, Kapsabet	

HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

THE BOARD OF DIRECTORS

1. Dr.Stephen Mbithi	Date of birth 1968 Ph.D inAgro-Processing(Value addition,Standards) Official representative to the GlobalGAP Standard for small scale growers worldwide and Ambassador for Africa
2. Mrs Grace Nyachae	Date of birth 1949 Personal Secretary Executive Director, Sansora Group Limited
3. Ms.Anne Njoroge	Representative of PS, Ministry of Agriculture
4. Mr.Davidson Sifuma	Representative Inspectorate of State Corporations.
5. Hon.Robert Kipkorir	Date of birth 1947
6. Mr.Eric Murungi	Representative of PS, Ministry of Finance Member
7. Dr. Alfred Serem	Date of birth1965 Ph.D Agricultural Resource Economics & Management. Managing Director / Board Secretary

HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

MANAGEMENT TEAM

1.	Dr. Alfred Serem up to 14.10.13	Phd.Agricultural Resource Economics & Management Managing Director HCDA
2.	Mrs.Grace Kyalo	Msc.Horticulture Acting Managing Director HCDA
3.	Ms.Anne Gikonyo	General Manager,Marketing & Strategic Planning. MBA Enomics& Philosophy
4.	Mr. Wilfred Yako	General Manager Technical & Advisory Services- Bsc Horticulture
5.	Mr. Isaac Meto	Manager Internal Audit MBA Executive
6.	Ms. Jane Were	Chief Human Resource Officer MBA-Strategic Management
7.	Mr.James Kilonzi Up to18.01.14	Chief Accountant MBA Strategic Management
8.	Ms.Josephine Ouma From 01.02.14	Acting Chief Accountant CPA(K)
<p><i>Note: The CEO and the Company Secretary will feature both under the 'Board' and 'Management'.</i></p>		

HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

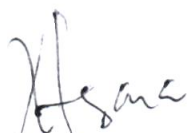
REPORT OF THE CHIEF EXECUTIVE OFFICER

It gives me great pleasure to submit the financial report and accounts for thirteen months ended 31st July 2014. The Authority's strategic focus during the year remained to develop, promote, coordinate and facilitate the horticultural industry. The vision of the Authority is "*A globally competitive horticulture sector in Kenya*" which is linked to the Vision 2030 of a newly industrialized, middle-income country providing a high quality life to all its citizens in a clean and secure environment.

The Agricultural sector in the country has continued to significantly contribute to the country's Gross Domestic Product (GDP) at the rate of 25.9% with the horticulture sector contributing 33% of the Agriculture's contribution. The horticulture sub-sector is one of Kenya's most important sub-sector particularly in terms of rural employment, income generation and foreign exchange earnings. In 2012, the sector earned Kshs 89.9 billion from fresh horticultural produce export. Cut flowers are the leading horticultural commodity exported. Of the Kshs 89.9 billion, approximately Kshs 64.9 billion was generated from flowers, Kshs 20 billion from vegetables and Kshs 5 billion from fruits.(Economic Survey 2013).

The Authority has continued to implement its strategic plan and aligning its activities to the Vision 2030. The Authority enhanced the level of compliance to horticultural regulations and standards for domestic and export products. These was done by training nursery operators, inspecting of farms and produce handling facilities for conformity to Good Agriculture Practices (GAPs) and Maximum Residue Levels(MRLs).In addition the farmers were trained on market requirements. In addition the Authority has continued to register the marketing agents whose role is to carry out bulking of produce for exporters. As an Authority we ensure that they have a traceability system of the produce. This financial year one hundred and seventy marketing agents were registered. Post harvest guideline on bananas was developed and disseminated. Two technologies in ASAL areas were identified. Greenhouse tomato production was done in Yatta while garlic farming was promoted in Machakos. Farmer groups were linked through horticulture business linkage forums. Fruit inspection is posted online and ICT is working on posting of pack house and farm inspection to be done online.

Thank you



MR. ZAKAYO MAGARA
INTERIM HEAD OF DIRECTORATE

HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

CORPORATE GOVERNANCE STATEMENT

Corporate governance is the manner in which the power over and the power of an organization is exercised in the stewardship of its total portfolio of assets and resources with the primary objective of increasing and sustaining shareholders value while satisfying the needs of the other stakeholders in the context of the vision and mission of the organization.

An independent board manages the business of the Authority. The board is keen on reviewing the overall framework of the internal controls and the assessment of management process and the adoption of the appropriate policies, regulations and codes of ethics. It is also responsible for ensuring that the Authority complies with the law and highest standards of the corporate and business ethics. The board currently comprises of members drawn from public & private sectors.

The Authority is committed to the efficient utilization of its resources and this is evidenced by the development of financial policies and regulations. The policies set in place internal controls to be followed to ensure compliance with the government regulations, International Public Sector Accounting Standards and other best practices..

The terms of the Directors expired at different dates within the year thus affecting the Board meetings. The Board had met four times before expiry of their term.

Special Full Board

<u>Name</u>	<u>Attended</u>
Dr.Stephen Mbithi	1
Mr.Eric Murungi	1

Full Board

<u>Name</u>	<u>Attended</u>
Ms.Anne Njoroge	2
Mr. Robert Kipkorir	2
Mrs.Grace Nyachae	2
Mr. David Sifuma	2
Dr.Stephen Mbithi	3
Mr.Eric Murungi	2

HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

RISKS

In order for HCDA to effectively achieve its mandate, measures have been put in place to seal-off leakages and manage inherent risks. This has been through the formulation of a risk management policy. Risk management plays a vital role in financial planning and aids in achieving the organizations strategic objectives. To proactively mitigate against these risks the risk management framework has been tied to the organizations strategic plan.

a) Operational Risks

This is the loss arising from systems failure, human error or external events. When controls fail to perform, operational risks can cause damage to reputation as well as lead to financial loss. The Authority cannot eliminate all operational risks but can manage them through a controlled framework and by monitoring and responding to potential risks. The controls that the corporation has put in place to minimize the potential risks include:

- Authorization levels.
- Segregation of duties
- Use of internal audit.

Through the segregation of duties the officers have accounts in the Enterprise Resource Planning where they log in when using the system. This way the documents are signed the relevant officers.

b) Liquidity Risk

This risk is defined as having difficulty in finding sufficient cash to meet the commitments that are due or being compelled to convert current assets into cash at a price lower than their fair value.

To address this risk the Authority has continued to prudently manage its cash flow. Investments of the surplus cash have been made in low risk Government securities and fixed deposits.

c) Market Risk

The Authority is a regulator of the horticultural industry in Kenya and a significant portion of its revenue is derived from levies on the horticultural produce. There is risk of its operations being adversely affected by a fall in the horticultural produce exported. The reduction may be attributed to various economic performance and factors beyond the Authority's control.

The market requirement of horticultural produce is continually changing and HCDA as a regulator is proactively engaging producers to ensure they meet the requirements and also enforce acceptable agricultural standards. This will continue to guarantee returns from the exports as well as open new markets for the horticultural products.

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d) ICT Risks

The Authority has installed the Enterprise Resource Planning System. (ERP) which is web based. There is a potential risk of vital information being stolen or manipulated by hackers.

To reduce the probability of this occurrence the Authority has entered into a contract with the supplier to support the system. In addition the Authority staff have user accounts which they use passwords to log on to the system. Staff are discouraged to share their password.

HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

CORPOARTE SOCIAL RESPONSIBILITY STATEMENT

The Authority believes in giving back to the community and in the thirteen months ending 31st July 2014 it undertook a number of corporate social responsibility activities.

As part of the Authority's performance contract, it committed to facilitate availability of five hundred fruit trees for planting in ten of the Authority's stations. The stations identified for this purpose were Bungoma, Eldoret, Nakuru, Nyandarua, Sagana, Kajiado, Meru, Kisumu, Taveta and Marigat.

The fruit tree seedlings to be planted were mango, avocado, tissue culture bananas, tree tomato or a combination depending on the suitability of the fruits in each given area.

The objectives were :

- To impart the knowledge of fruit tree planting
- Handling the fruit tree seedlings up to maturity.
- The economic benefits when the fruits are sold.
- The nutrition benefits when the fruits are consumed.
- The individual economic benefits if undertaken as a project.
- Conservation of the environment.

A total of five hundred fruit tree seedlings were planted. The schools were to maintain the orchards while the Authority offers the technical services.

The Authority also supported various vulnerable groups in the ended financial period. Two vulnerable groups were supported in Busia and Bungoma with the aim for teaching them on:

- The nutritional value of various food to manage their condition.
- Farming as a source of income

In Central Province the Authority supported Tumutumu School for the deaf. The students were capacity built on value addition for their farm produce with the aim of improving their incomes and reducing wastages especially during glut.

The Authority sponsored the Beyond Zero Foundation in the financial year by giving some donation. The funds were to help disadvantaged Kenyans to end preventable deaths among women and children and giving new impetus to the fight against HIV and AIDS. This was to help mothers' access better health care and eliminate new infections among children and keep their mothers alive.

HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

REPORT OF THE DIRECTORS

The Board of Directors submits their report together with audited financial statements for the year ended 31st July 2014, which shows the state of affairs of the Authority.

Financial Results

The trading results and financial report for the thirteen months r are set out on pages 14 to 18. The operating revenue of the thirteen months increased by 0.152% to KShs 397.326Million while the operating expenses decreased by 0.0152% from KShs 506.835 Million to KShs. 391.382Million. The surplus for the year is KShs 5.944Million against last financial year's deficit of KShs 115.5 Million.

HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

REPORT OF DIRECTORS' RESPONSIBILITY

The State Corporations Act Section 15 requires every State Corporation to keep proper books of accounts recording all the property, undertakings, funds, activities, contracts, transactions and other business. The board is responsible for the proper management of the affairs of the Authority.

The incumbent Directors submit the report and final accounts for thirteen months ended 31st July, 2014 in accordance with section 13(2) of the Horticultural Crops Development Authority order 1995 which requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Authority as at the end of the financial year. The financial statements include a Statement of Financial Position, Statement of Comprehensive Income and Expenditure, Cash flow Statement and Statement of Changes in Equity and other disclosures that the Board deem necessary for the period. It also requires the Directors to ensure the Authority keeps proper accounting position of the Authority. They are also responsible for safeguarding the assets of the Authority.

The directors accept the responsibility for the financial statements, which have been prepared using appropriate accounting polices supported by reasonable and prudent judgment and estimates, consistent with previous year, and in conformity with the International Financial Reporting Standards. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Authority as at 30th June 2014 and of its loss for the year then ended. The directors further confirm the accuracy and completeness of the accounting records maintained by the Authority, which has been relied upon in the preparation of the financial statements as well as on adequacy of the internal financial controls.

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

This statement is approved by the board of directors and is signed on their behalf by:



MR.ZAKAYO MAGARA
INTERIM HEAD OF DIRECTORATE
DATE 15th December 2014

REPUBLIC OF KENYA

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



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON HORTICULTURAL CROPS DEVELOPMENT AUTHORITY FOR THE 13 MONTHS PERIOD ENDED 31 JULY 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Horticultural Crops Development Authority set out on pages 14 to 34 which comprise the statement of financial position as at 31 July 2014, and the statement of financial performance, statement of changes in net assets and statement of cash flows for the period 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 14 of the Public Audit Act, 2003. 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.

Management's Responsibility for the Financial Statements

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

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2003. The audit was conducted in accordance with International Standards of Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In

making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, I am not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of opinion

1. Property, Plant and Equipment

1.1 Land Without Title Deeds

As previously reported, the property, plant and equipment balance of Kshs.706,876,000 as at 31 July,2014 includes an amount of Kshs.161,200,000 representing the value of land on which the Authority's depots stand and for which title deeds had not been obtained. Further, the ownership of plot LR. No. 209/12490 situated along Mombasa road and measuring 3.5 hectares valued at Kshs.86,000,000 is still in dispute.

1.2 Variances Between the Balances as at 30 June 2013 and 1 July 2014

The following variances were observed:-

<u>Asset</u>	<u>30 June 2013</u>	<u>1 July 2013</u>	<u>Variance</u>
	<u>(Kshs.)</u>	<u>(Kshs.)</u>	<u>(Kshs.)</u>
Buildings	628,306	653,556	25,250
Motor vehicles	208,635	246,448	37,813
Computer	12,584	12,554	30
Office equipment	4,830	-	4,830
Plant, Machinery and Equipment	430,879	431,443	564
Communication Equipment	2,799	7,796	4,997
Tools and Equipment	2,515	2,007	508
Furniture and Fittings	50,822	50,667	155
Borehole	25,250	-	25,250

No explanation has been given for these variances.

1.3 Included in the figure of property plant and equipment of Kshs.706,876,000 as at 31 July 2014 is Kshs.519,000 in respect of temporary buildings. Audit verifications however revealed that this class of asset had no values during 2012/2013 financial year and no additions were made during the year under audit.

1.4 The balance of Kshs.240,655,000 in respect of motor vehicles includes Kshs.151,060,000 representing the cost of motor vehicles disposed off during the year under review. This contravenes the provision of paragraph 13 of the International Public Sector Accounting Standards (IPSAS) No.17 which provides that the carrying amount of an asset shall be derecognized on disposal. In addition, available information revealed a variance of Kshs.752,000 between the disposed off assets and note 12 to the accounts.

1.5 The management has not provided evidence of the procurement process used in the acquisition of plant, machinery and equipment valued at Kshs.1,426,000 and furniture valued at Kshs.54,000 during the year.

1.6 It is not clear and management has not explained how the depreciation charge for the year was derived since no workings were provided for verification. According to the records available, all vehicles owned by the Institution are fully depreciated and therefore the charge of Kshs.931,000 on motor vehicles could not be ascertained.

In view of the above, it has not been possible to confirm whether property, plant and equipment balance of Kshs.706,876,000 as at 31 July 2014 is fairly stated.

1.7 Intangible Assets

According to the audited accounts for 2012/2013, the opening balance of Intangible Assets was reported as Kshs.30,634,000 and at a depreciation rate of 12.5% per annum this would have translated to Kshs.6,015,000 with the expected net book value of Kshs.24,619,000 as at 31 July 2014. However, according to Note 15 to the accounts, the Corporation has reported the net book as Kshs.24,015,000 in respect of intangible assets resulting to an understatement by Kshs.604,000. The management has not provided a reconciliation for the variance.

1.8 Lease of Horticultural Produce Handling Facilities

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

Further, considering that the facilities were constructed through a JICA Loan to the Government of Kenya and that Treasury is still servicing the loan facility, the agreement between the Authority and FPEAK is not in the best interests of the Government of Kenya and the public.

2. Trade Payables and Accruals

- i) Trade payables and accruals balance of Kshs.106,740,000 differs with the supporting schedules balance of Kshs.96,156,447.90 by un-reconciled variance of Kshs.10,583,552.10.
- ii) Included in the creditors list is sundry creditors balance of Kshs.1,500,038 that has remained outstanding for more than four years.
- iii) Further, trade and accruals balance includes Kshs.5,194,331.13 relating to debit balances which have been netted off contrary to the International Public Sector Accounting Standard (IPSAS) No.1 which states that assets and liabilities, and revenue and expenses, may not be offset unless offsetting is permitted or required by another IPSAS.
- iv) As previously reported, the creditors balance of Kshs.106,740,000 as at 31 July 2014 includes an amount of Kshs.63,582,291.80 in respect of rent accrued and due to Kenya Airports Authority. Although the Authority had proposed to clear the arrears, no evidence has been produced to show that any payment was made towards the year under audit.
- v) The current liabilities and accruals as at 31 July 2014 further excludes a provision for audit fees of Kshs.400,000 excluding 16% VAT as per the letter of understanding signed between the Office of the Auditor-General and the Chief Executive Officer HCDA dated 28 June 2014.

In the circumstances, it is has not been possible to confirm whether trade and accruals balance of Kshs.106,740,000 as at 31 July 2014 is fairly stated.

3. Board Expenses

- i) According to Section 10 (1) of the State Corporations Act, Cap 446 Laws of Kenya, the chairman and members of a Board other than the Chief Executive are to be paid sitting allowance out of the funds of the Authority on attendance of Board/Committee meetings. However, in the year under review that the Authority paid a total of Kshs.58,650 to non-board members in attendance as sitting allowances during board/committee meetings.
- ii) According to Section 4(i) of the HCDA Order 2011 there is a provision of eleven directors including the Chairman and the Managing Director. The quorum according to section 8(ii) of the State Corporations Act Cap 446 is

2/3, however during the year the Authority had only three (3) full board meetings with six, five and four members in attendance on 3 July and 20 and 21 August 2013 respectively.

The Authority was therefore in breach of the law to the extent of these payments.

4. Cash and Cash Equivalents

4.1 Cash in hand

Included in cash and cash equivalents balance of Kshs.205,863,000 is Kshs.2,003,000 in respect of cash in hand. However, this amount could not be verified since no board of survey certificates were provided for verification. Similarly, a station imprest cash of Kshs.49,000 was not supported.

4.2 Negative Cash Balances

The following items under note 13 had negative balances;

	Kshs.
KCB Account	50,000
Petty Cash	249,000

These balances were netted off contrary to the International Public Sector Accounting Standards (IPSAS) No.1 which states that assets and liabilities, and revenue and expenses, may not be offset unless offsetting is permitted or required by another IPSAS.

In addition, the management has not provided documents to support these negative balances.

4.3 Variances

The following accounts reflect different figures from the financial statements balances;

Ac No.	Financial Statement (Kshs.)	Reconciliation Balance (Kshs.)	Variance (Kshs.)
0945019115	36,148,000	22,646,000	13,502,000
01150098625200	65,059,000	65,474,000	415,000
01136098625202	} 2,903,000	2,198,335	704,665
01136098625200			

Further, the project account number 0113609825202 has a bank certificate balance of Kshs.377,168.

4.4 Fixed Deposits

The cash and cash equivalent balance further includes Kshs.100,000,000 relating to fixed deposits held at the Co-operative Bank, Co-op Bank House Nairobi. This however is contrary to the Public Sector Accounting standards which require investments to be disclosed separately under the current assets.

In the circumstances, it has not been possible to confirm whether cash and cash equivalents balance of Kshs.205,863,000 as at 31 July 2014 is fairly stated.

5. Security Expenses

The Authority paid a total of Kshs.3,779,946 to two security firms for their services during the year. The management has however not explained the reasons for the payments since all the facilities had been leased to Fresh Produce Exporters Association of Kenya (FPEAK), a private entity.

Under the circumstances, the propriety of the expenditure of Kshs.3,779,946 as at 31 July 2014 could not be confirmed.

6. Provisions

The current liabilities balance of Kshs.117,838,000 as at 31 July 2015 includes a balance of Kshs.11,098,000 relating to provisions. The management has however not provided an analysis of the figure.

7. Export Licenses

The Authority issued licenses amounting to Kshs.2,946,000 during the period ended 31 July, 2014. However, no supporting documents were provided for audit verification.

8. GOK Recurrent Grants

The statement of comprehensive income reflects Government grants of Kshs.267,173,000 while the schedule of grants received from the Ministry of Agriculture, Livestock and Fisheries during the period reflects an amount of Kshs.246,658,000 resulting to an un-explained difference of Kshs.20,515,000.No explanation has been given for the variance.

9. Employee Costs

Staff training figure in the financial statements under note 7 to the accounts is reported as Kshs.5,700,000 whereas the supporting schedules figure is Kshs.5,240,378 resulting to an unreconciled variance of Kshs.459,622.

10. Account Receivables and Prepayments

10.1 Trade debtors

Included in accounts receivables and prepayments as disclosed under note 17 to the accounts is Kshs.63,540,000 in respect of trade debtors. However, this figures varies with the schedules provided for audit verification totals of Kshs.63,156,493.70 by an unreconciled difference of Kshs.383,506. In addition, the trade debtors balance includes credit balances of Kshs.6,097,068 contrary to the International Public Accounting Standards (IPSAS) No.1 which states that assets and liabilities, and revenue and expenses, may not be offset unless offsetting is permitted or required by another IPSAS.

10.2 Staff Advances

Included in the staff debtors balance of Kshs.Kshs.313,332.20 as at 31 July 2014 are credit balances totalling Kshs.109,899.90 contrary to the provisions of the International Public Sector Accounting Standard (IPSAS) No.1 which states that assets and liabilities, and revenue and expenses, may not be offset unless offsetting is permitted or required by another IPSAS.

Under the circumstances, it has not been possible to confirm whether, account receivables and prepayments balance of Kshs.90,506,000 as at 31 July 2014 is fairly stated.

11. Balances not Supported

The following balances were not verified for lack of evidence:

	Kshs.
a) Unsurrendered imprests -	9,248,000
b) Advance to farmers	35,000
c) Ruto life insurance	2,000
d) Mulandi tax arrears	863,000
e) Mwanzia tax arrears	1,357,000
f) Horticultural Research Fund	4,607,000
g) Prepayments	10,290,000
h) Interest on fixed deposit A/C	2,251,000

i) Depreciation 86,014,000

In the circumstances, it was not possible to confirm the accuracy of these figures in the absence of supporting schedules.

12. Trial Balance

The Authority did not present a trial balance for audit verification. In the circumstances therefore, it is not clear and the management has not explained the source of the balances in these financial statements.

13. Presentation of the Financial Statements

- i) The financial statements as presented do not comply with the format as prescribed by the Public Sector Accounting Standards Board (PSASB).
- ii) Some notes that had been referenced on the face of the financial statements were missing from the notes. These include note 32 on intangible assets, note 34 on trade payables and accruals, note 35 on refundable deposits from customers and note 36 on provisions. This is contrary to the paragraphs 128 and 129 of the IPSAS No.1 which provides that notes to the financial statements shall, as far as practicable be presented in a systematic manner. There is no taxation charge included in the statement of financial performance. In addition, the management has not provided a note explaining why the Authority does not have a tax charge yet it is not exempted from corporate taxation.
- iii) The Authority has not disclosed the related party transactions contrary to the provisions of IPSAS No. 20.
- iv) The Authority has not differentiated between receivables from exchange transactions and receivables from non-exchange transactions contrary to IPSAS. 1.88 (g) and IPSAS 1.88 (h).
- v) The financial statements do not comply with paragraph 6 of IPSAS No. 19 that requires certain information to be disclosed about contingent liabilities and contingent assets in the notes to the financial statements.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion Paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Other Matter

Going Concern

With the operationalization of the Agriculture, Fisheries and Food Act and Crops Act of 2013 on 1 August 2014, the Authority has ceased to exist as a legal entity and it now operates as a Directorate under the Agriculture, Fisheries and Food Authority (AFFA). My opinion is not qualified in respect of this matter.



Edward R.O. Ouko, CBS
AUDITOR GENERAL

Nairobi

18 May 2015

I. STATEMENT OF FINANCIAL PERFORMANCE			
FOR THE YEAR ENDED 31ST JULY 2014			
		2013/14	2012/13
		Kshs "000"	KShs "000"
Revenue from non-exchange transactions	Notes		
Levies	3	68,469	62,871
Export Licenses	3	2,946	4,086
Gok recurrent grants	4	267,173	288,827
		338,587	355,784
Revenue from exchange transactions			
Investment income	5	8,347	8,164
Other income	6	3,575	13,998
		11,922	22,162
Total revenue		350,509	377,946
Expenses			
Employee costs	7	210,503	222,824
Depreciation and amortization expense	8	86,014	85,768
Repairs and maintenance	9	1,008	5,563
General expenses	10	93,327	192,155
Finance costs	11	531	525
Total expenses		391,382	506,835
Other gains/(losses)			
Gain on sale of assets	12	46,817	13,426
Surplus before tax		5,944	(115,463)
Taxation	0		-
Surplus for the period		5,944	(115,463)

The notes set out on pages 14 to 16 form an integral part of the Financial Statements

**XII. STATEMENT OF FINANCIAL POSITION
AS AT 31ST JULY 2014**

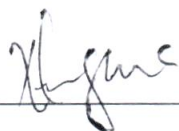
	Notes	2013/14 Kshs "000"	2012/13 Kshs" 000"
Assets			
Current assets			
Cash and cash equivalents	13	205,863	33,008
Account Receivables & Prepayments	14	90,506	107,188
Investments-Utilities Deposit		2,000	96,518
Accrued Interest Income		540	-
		298,909	236,714
Non-current assets			
Property, plant and equipment	15	706,876	779,794
Intangible assets	32	24,015	30,634
		730,891	810,428
Total assets		1,029,800	1,047,142
Liabilities			
Current liabilities			
Trade Payables & Accruals	17	106,740	115,182
Refundable deposits from customers		-	-
Provisions	19	11,098	11,098
Total Liabilities		117,838	126,280
Net assets			
Accumulated Gok grants		1,753,090	1,753,090
General Reserves		(841,128)	(832,228)
Accumulated surplus		-	-
Total net assets and liabilities		911,962	920,862
		1,029,800	1,047,142

The Financial Statements set out on pages 15 was signed by:

Mr. Zakayo Magara

Interim Head of Directorate

Signature



Date:

15/12/2014

**XIII. STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 31ST JULY 2014**

	Government Grants	General Reserves	Total
	Kshs '000	Kshs '000	Kshs '000
Balance as at 01.07.12	1,753,090	(714,936)	1,038,154
Adjustments	-	(1,826)	(1,826)
Surplus/(deficit) for the period	-	(115,465)	(115,465)
Transfers to/from accumulated surplus	-	-	-
Balance as at 30.06.13	1,753,090	(832,227)	920,863
As at 01.07.13	1,753,090	(835,130)	917,960
Prior Year Adjustments		(11,942)	(11,942)
(Deficit)/Profit for the year		5,944	5,944
	-		-
Balance as at 31 ST JULY 2014	1,753,090	(841,128)	911,962

I. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original	Final	Actual	Variance
	2013-2014	2013-2014	2013-2014	2013-2014
	Kshs "'000"	Kshs "'000"	Kshs "'000"	Kshs '000
Revenue				
Levies			68,469	28,444
	40,025	40,025		
Export Licenses			2,946	(2,055)
	5,000	5,000		
Gok Recurrent Grants	261,180	261,180	256,180	(5,000)
Other miscellaneous	3,560	3,560	14,567	11,007
Investment Income	6,700	6,700	8,347	1,647
Gains on disposal	45,000	45,000	46,817	1,817
Total income	361,465	361,465	397,327	
Expenses				
Employee Costs	237,827	237,827	210,503	27,324
Bank Charges		-	531	(531)
Rent paid	5,144	5,144	7,165	(2,021)
Other payments	184,264	82,335	87,169	(4,834)
Capital Expenditure	19,261	19,261	6,477	12,784
Total expenditure	441,352	344,567	305,368	
Surplus for the period	(79,887)	16,698	91,958	

**CASHFLOW STATEMENT
FOR THE YEAR ENDED 30TH JUNE 2014**

	<u>2013/14</u> Kshs "000"	<u>2012/13</u> Kshs "000"
<u>Cashflows From Operating Activities</u>		
Surplus/(Deficit) before taxation & extraordinary items	5,944	(115,465)
Adjustments for		
Depreciation	86,014	85,768
Accrued Expenses	-	1,070
Investment Income earned	8,347	(8,164)
Prior year adjustments	5,535	82
Profit disposal	(46,817)	(13,426)
<i>Operating surplus before working capital changes</i>	<u>59,024</u>	<u>(50,135)</u>
Decrease /(Increase) in Accounts Receivables	1,473	(5,316)
Increase/(Decrease) in Accounts Payables & Provisions	6,352	8,002
<i>Net inflow/(outflow)from operating activities</i>	<u>66,849</u>	<u>(47,449)</u>
Cashflows From Investing activities		
Purchase of property and equipment	(6,478)	(2,909)
Disposal of Fixed Assets	46,817	13,426
Treasury Bills redemption	66,518	39,263
Investments	-	-
Investment Income Realised	2,079	10,950
<i>Net outflow from investing activities</i>	<u>108,936</u>	<u>60,730</u>
Cashflows From Financing Activities		
Development Grants	-	-
<i>Net cash from financing activities</i>	<u>-</u>	<u>-</u>
Increase/(Decrease) in cash and cash equivalents	175,785	13,281
Cash & cash equivalents at beginning of the period	29,803	19,727
Cash & cash equivalents at end of the period	<u>205,588</u>	<u>33,008</u>

HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation

The entity's financial statements have been prepared using the International Public Sector Accounting Standards (IPSAS). This is the first time adoption. The Authority's activities are carried out in the Republic of Kenya and accounts are reported in the home currency-Kenya shillings. Values are rounded to the nearest thousand (Ksh 000).

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

2. Summary of significant accounting policies

a) Revenue recognition

Revenue from non-exchange transactions

i) Export Levies and Licenses

Receivables are recognised initially at fair value and subsequently measured at amortized cost using the effective interest rate. A provision for impairment is recognized in the profit and loss account in the year when the recovery of the amount due as per the original terms is doubtful

(ii) GoK Recurrent (Income)

Government Grants are accounted for under the Income approach where they are recognised as income over the periods received necessary to match them with the related assets which they are intended to compensate on a systematic basis in accordance with IPSAS 23. The Authority received grants from development partners for the support of the Small Holders Development Project and the National Horticulture Management Information Systems.

(iii) Investment income

In the period ending 31st July 2014 the Authority invested in Treasury bills and Fixed Deposits. The interest earned has been included in the Financial Statements.

b) Budget information

HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

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 entity. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or entity 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) **Property, plant and equipment**

The Authority depreciates its assets on a pro rata basis using the straight line method as follows:

Equipment, Furniture & Fittings	12.5%
Computers	30.0%
Temporary buildings	20%
Motor vehicles	25%
Buildings	2%
Lease land amortization	1.01%
Boreholes	12.5%

All property, plant and equipment are stated at cost less accumulated depreciation. The Authority is in the process of acquiring title deeds for some of the parcels of land that its depots are situated.

d) **Intangible assets**

Intangible assets acquired separately are initially recognized at cost. Following initial recognition, intangible assets are depreciated annually at the rate of 12.5% p. a

e) **Provisions**

Provisions are recognized when the Authority has a present legal or contractual obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

It is the Authority's policy to provide for bad and doubtful debts at the rate of 9% of the total debtors outstanding as at year end after specific provisions. In addition to the provision for bad debts a specific provision is made for debts that are considered unrecoverable. There are no additional specific or general provision for the year ending 30th June 2014.

f) **Nature and Purpose of Reserves**

The Authority received a loan amounting to KShs1.5 Billion from the Government of Kenya in 1999 for the establishment of the horticultural produce handling facilities. The Authority was not able to service the loan as per the signed contract and made a request to the government for the conversion of the loan into a grant. The request was approved

HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

by the cabinet in June 2012. This was written off and as a result has been transferred to Shareholders equity.

g) **Employee Benefits**

The Authority operates a defined contribution pension scheme for its employees, where the rate of the Authority's contribution is determined by the Board of Directors with approvals from the Government. Contract staff are entitled to gratuity payment on the completion of the contract. Provision is made for gratuity in line with the contracts. The Authority's contributions in respect of retirement benefit costs are charged to the income statement in the year to which they relate.

h) **Related Party Transactions**

The Authority's Board adopted a change in policy on the management of the Horticultural Produce Handling Facilities. In line with the policy the Authority leased out the facilities to the Fresh Produce Exporters Association of Kenya in September 2012. The Chief Executive Officer of the Association is a Director of the Authority hence meeting benchmark set in IPSAS 20 to warrant a disclosure in the Financial Statements. As per the agreement the Association will not pay the Authority for use of the facilities until a time when it is able to make profits from the use of the facilities.

i) **Cash and Cash Equivalents**

This comprises of bank balances, cash in hand and other short term highly liquid investments maturing in three months are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

j) **Comparative figures**

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

k) **Contingent Liabilities**

The number of court cases pending against the Authority up to 74 million in legal fees if the cases are lost. These amount is not provided for in the financial statements.

Print Notes from Excel Sheet and skip to page 28

3. Levies

	2013/14 KShs "000"	2012/13 KShs"000"
Export Cess	68,469	62,871
Export Licences	2,946	4,086
Total	<u>71,414</u>	<u>66,957</u>

4.Grants

	2013/14 KShs"000"	2012/13 KShs"000"
Gok Grants	256,180	276,480
Other development Partners	10,993	12,347
Total	<u>246,658</u>	<u>288,827</u>

5.Investment Income

	2013/14 KShs "000"	2012/13 KShs"000"
Interest on fixed deposits	2,301	3,346
Interest on Treasury bills	6,047	4,818
Total	<u>8,347</u>	<u>8,164</u>

6.Other income

	2013/14 KShs "000"	2012/13 KShs 000
Hire Of Cold Room	15	4,724
Hire of crates	24	
Hire Of Packhouse		2,729
Hire Of Premises	18	764
Hire Of Transport	-	-
Processing Levy	-	1,588
Miscellaneous Income	3,517	4,193
Total	<u>3,575</u>	<u>13,998</u>

7. Employee costs

	2013/14	2012/13
	KShs "000"	KShs "000"
Employee related costs-salaries and wages	101,960	149,980
Pensions ,NSSF & DIT Employer	19,767	18,359
Medical Insurance	12,617	20,476
Commuter allowance	15,217	31,245
Gratuities	811	815
Casual Labour	547	1,949
Staff travelling & Subsistence	19,681	-
House allowance	34,202	-
Staff Training	5,700	-
Employee costs	210,503	222,824

8. Depreciation expense

	2013/14	2012/13
	Kshs "000"	Kshs "000"
Buildings	15,722	12,566
Temporary structures		56
M/Vehicles	931	1,242
Computers	876	1,252
Office Equipment	-	604
Plant, Machinery & Equipment	54,216	53,860
Communication Equipment	1,578	350
Tools & Equipment	314	314
Furniture & Fittings	6,360	6,353
Borehole	-	3,156
Software	-	6,015
	79,999	85,768

9.Repairs and maintenance

	2013/14 KShs "000"	2012/13 KShs "000"
General repairs	1,008	5,563
Other	-	-
Total	<u>1,008</u>	<u>5,563</u>

10.General expenses

These includes:

	2013/14 KShs"000"	2012/13 KShs"000"
Advertising	1,737	5,268
Audit fees	-	-
Consultancy fees	6,722	4,655
G/Office expenses/Supplies	6,627	10385
Electricity & Water	929	9063
M/Vehicle running expenses	8,930	12624
Insurance	7,108	18993
Legal expenses	6,738	9018
Staff welfare	-	5116
Staff travelling & subsistence	-	33441
Telephone & postage	9,542	5776
Printing and stationery	2,931	-
Rent & rates	7,165	11158
Contracted services	2,346	10069
Accruals	-	670
Training/Extension services	18,286	21223
Fairs,shows & Exhibitions	6,283	15158
Research & Development	6,387	5257
Board expenses	828	9060
Trade Licences	-	4475
Other operating expenses	769	346
Total general expenses	<u>93,327</u>	<u>192,155</u>

	2013/14 Kshs"000"	2012/13 Kshs"000"
11. Finance Costs		
Bank Commission & Charges	531	525
	<u>531</u>	<u>525</u>

12.Gain on sale of assets

	2013/14 KShs"000"	2012/13 kShs "000"
Other assets	46,817	13,426
Total gain on sale of assets	<u>46,817</u>	<u>13,426</u>

13. Cash and cash equivalents

	2013/14	2012/13
	KShs "000"	KShs" 000"
Operations	36,148	5,757
Call account	65,059	20,795
Projects(Nahmis & SHDP)	2,903	6,446
Fixed deposits(FDR 1&2)	100,000	-
Cash in hand	2,003	10
KCB Account	(50)	-
Station imprests	49	-
Petty cash	(249)	-
Total cash and cash equivalents	<u>205,863</u>	<u>33,008</u>

14. Receivables from exchange transactions

	2013/14	2012/13
Current receivables	KShs "000"	KShs" 000"
Trade debtors	63,540	71,663
Staff Advances	313	1,343
Un-surrendered staff imprests	9,248	8,582
Deposits	-	251
Advance to farmers	35	35
Ruto Life Insurance	2	2
M.A.S Mulandi tax arrears	863	863
Dr.Mwanzia Tax Arrears	1,357	1,357
Horticultural Research Fund	4,607	4,607
Sundry Debtors	-	397
Prepayments All	10,290	7,537
Insurance	-	6,997
Others	-	15
Accrued Income-Tbills Interest	-	918
Interest on fixed deposit A/C	-	620
Utilities Deposit	2,251	2,000
Total current receivables	<u>92,506</u>	<u>107,187</u>

15. Intangible assets-software

Cost	KShs"000"
At 1 July 2012-NBV	30,634
Additions	-
At 30 June 2013	<u>30,634</u>
Additions-internal development	-
As at 01.07.13	<u>48,122</u>
At 30 June 2014	<u><u>48,122</u></u>
Amortization and impairment	
At 1 July 2012	
Amortization/Depreciation	<u>6,015</u>
At 30 June 2013	
As at 01.07.13	18,091
Amortization	6,015
Impairment loss	-
At 30 June 2014	<u><u>24,106</u></u>
Net book values	
At 31 July 2014	24,015
At 30 June 2013	30,634

17. Creditors and Accruals exchange transactions

	2013/14	2012/13
	KShs "000"	KShs "000"
Trade payables	96,156	100,594
Sundry Creditors	9,859	6,849
Horticultural Associations	724	724
Other payables	-	7,015
Total trade and other payables	<u><u>106,740</u></u>	<u><u>115,182</u></u>

18. Retained Earnings

	2013/14
	KShs
As at 01.07.13	(610,276)
Accumulated Deficit for the years	<u>(224,854)</u>
Total accumulated deficit	(835,130)
Profit/Deficit for the year	5,944
Accumulated Prior Year adjustments	<u>(11,942)</u>
	<u><u>(841,128)</u></u>

19. Current provisions

	2013/14
	Kshs
Balance at the beginning of the year	11,098
Additional provisions raised	-
Balance as at 30 June 2014	<u><u>11,098</u></u>

16. Property, plant and equipment

	LAND	BUILDING	TEMPORARY BUILDING	MOTOR VEHICLES	COMPUTERS	OFFICE EQUIPMENTS	PLANT, MACHINERY & EQUIPMENTS	COMMUNICATION EQUIPMENT	TOOLS & EQUIPMENTS	FURNITURE & FITTINGS	BOREHOLE	SOFTWARES	WORKS IN PROGRESS	TOTALS
		Kshs "000"	Kshs "000"	Kshs "000"						Kshs "000"	Kshs "000"		Kshs "000"	Kshs "000"
		2%	20%	25%	30.00%	12.50%	12.50%	12.50%	12.50%	12.50%	12.50%	12.50%		
At start of year	161,200	628,860	2,595	240,655	11,082	4,830	430,570	2,799	1,416	50,822	25,250	48,122		1,608,202
Revaluation				(32,020)										(32,020)
Additions					1,502		309		1,099					2,909
Disposals														
Transfers		(554)												(554)
At 30 June 2013	161,200	628,306	2,595	208,635	12,584	4,830	430,879	2,799	2,515	50,822	25,250	48,122		1,578,538
As at 01.07.13	161,200	653,556	2,595	246,544	12,448		431,443	7,796	2,007	50,667		48,122		1,616,378
Additions	-						1,426	4,998		54				6,478
Disposals	-													
Transfer/adjustments	-													
At 30 June 2014	161,200	653,556	2,595	246,544	12,448		432,869	12,794	2,007	50,721		48,122		1,622,856
Depreciation and impairment														
At start of year	-	73,839	2,539	235,687	8,411	2,881	321,128	2,093	689	36,695	18,938	11,472		714,373
Charge for the year	-	12,566	56	1,242	1,252	604	53,860	350	314	6,353	3,156	6,015		85,768
Impairment/Revaluation				(32,020)										(32,020)
Transfers	-	(11)												(11)
At 30 June 2013	-	86,394	2,595	204,909	9,663	3,485	374,988	2,443	1,003	43,048	22,094	17,487		768,110
As at 01.07.13	-	109,007	2,076	242,749	9,663		375,322	5,325	669	43,048		18,091		805,950
Charge for the year	-	15,722		931	876		54,216	1,578	314	6,360		6,015		86,014
Disposals	-													
Impairment	-													
Transfer/adjustment	-													
At 30 June 2014	-	124,730	2,076	243,681	10,539		429,539	6,903	983	49,407		24,106		891,964
Netbook values														
At 30 June 2014	161,200	528,826	519	2,864	1,908		3,330	5,891	1,024	1,313		24,015		730,891
At 30 June 2013	161,200	541,912		3,726	2,921	1,345	55,891	356	1,512	7,775	3,156	30,634		810,428

HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

BUDGET VARIANCES

Note 20

More export levy collected than budgeted for because exporters required to clear the outstanding cess before renewal of export licence. New exporters requested to place cess deposit upon approval of the export licence application. The budget was for one year whereas the income is for thirteen months.

Note 21

Less exporters for export licence than budgeted for.

Note 22

Gok grants were reduced from Ksh21.765M to Kshs20.5M monthly from March 2014 .The June 2014 allocation was received in July 2014. During the year the Authority received grants from development partners.

Note26

The Authority had factored a salary review which was not approved by the Salaries & Remuneration Commission resulting to the variance above.

Note 28

Communication Equipment acquired for the National Horticulture Management Information System (Nahmis Project).These was bought from the grants that had been received from the development partners.

HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

<i>Reference No. on the external audit Report</i>	<i>Issue / Observations from Auditor</i>	<i>Management comments</i>	<i>Focal Point person to resolve the issue (Name and designation)</i>	<i>Status: (Resolved / Not Resolved)</i>	<i>Timeframe : (Put a date when you expect the issue to be resolved)</i>
1	Financial			Not resolved	

HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

The Authority is pursuing different proposal with the parent Ministry with a view of making the Authority self sufficient. The Authority has made a proposal to the Ministry with a view of changing the base rate of charging the export levy from volume to value of the exports in line with other levies. This is expected to generate enough revenue to the tune of KShs 750 Million which will ensure that the Authority is able to perform its core functions and improve on its financial performance.

Performance

As previously reported, a deficit of Kshs 115,465,000(2012-Kshs 97,890,000 in 2011/12 which increased the general reserve fund negative balance from Kshs 714,937,000 in 2011/12 to a negative balance of Kshs

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<p align="center">2.1</p>	<p>Property, plant and Equipment</p> <p>Land without title deed</p> <p>The property, plant and equipment balance of Kshs 779,794,000 as at 30 June, 2013 includes an amount of Kshs 161,000,000 representing the value of land on which the Authority's depots stand and for which as similarly noted in 2011/2012, the Authority had not obtained title deeds. Further, the ownership of plot LR.No.209/124 90 situated along Mombasa road and measuring 3.5 hectares valued at Kshs 86,000,000 is still in dispute. In the absence</p>	<p>The Board and Management are following up the issue and the matter is in court pending judgment with the hearing having been concluded.</p>			<p>No resolved</p>
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HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

	<p>of ownership documents for the land indicated above, it has not been possible to confirm whether property, plant and equipment balance of Kshs779,794,000 as at 30 June 2013 is fairly stated.</p>				
<p style="text-align: center;">2.2</p>	<p>Lease of Horticultural handling facilities During the year under review, the Authority signed an agreement with Fresh Produce Exporters Associatio.(FPEAK)for lease of its Horticultural Produce Handling Facilities(HPHF).However, as per the agreement signed in September 2012,FPEAK took over the facilities without any rent/charges payable to the</p>	<p>The recommendation is noted and the Authority will initiate negotiations with FPEAK to ensure that the utilization of the facilities benefits the public.</p>			<p>The Produce handling facilities reverted back to the Directorate in November 2014</p>

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<p>Authority. Further, available information indicates that according to the Ministry of Lands valuation report dated 7 September, 2011, indicated that the Authority should have charged total of Kshs 3770000p.a for lease of these facilities. Further, considering that facilities were constructed through a JICA Loan to the Government of Kenya and Treasury is still servicing the loan facility, the agreement between the Authority and FPEAK is not in the best interest of the Government of Kenya and the public.</p>				
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HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

3	<p>Creditors and Accruals. As similarly reported in the previous year, the creditors and accruals balance of Kshs 114,753,000 as at 30 June 2013 includes an amount of Kshs 61,957,503 in respect of rent accrued and due to Kenya Airports Authority. Although the Authority had proposed to clear the arrears, only Kshs 1,624,788 was paid during the year under review. It has not been explained by management when this long outstanding rent will be settled.</p>	<p>The management is still in the process of negotiating with KAA, Ministry of Infrastructure and Transport through the parent Ministry with a view of writing off the debt, reviewing the rates downwards and issuance of a long term lease.</p>			<p>Not Resolved</p>
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HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

4	<p>Board Expenses According to section 10(1) of the State Corporations Act, Cap. 466 Laws of Kenya, the chairman and members of a Board other than the Chief Executive are to be paid a sitting allowance out of the funds of the Corporation on attendance of Board/Committee meetings. However, in the year under review the Authority paid a total of Kshs 421220 to non-board members in attendance as sitting allowances during board/committee meetings. The Authority was therefore in breach of the law to the extent of these payments.</p>	<p>The recommendation is noted and the payment will be discontinued forthwith</p>	<p>The Board was dissolved after coming into effect of the Agriculture, Fisheries and Food Authority in August 2014.</p>		
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