

REPUBLIC OF KENYA



*Paper laid*  
*By the Hon. Jantock*  
*Kaman on*  
*Wednesday 24/11/15*  
*[Signature]*

KENYA NATIONAL AUDIT OFFICE



**REPORT**

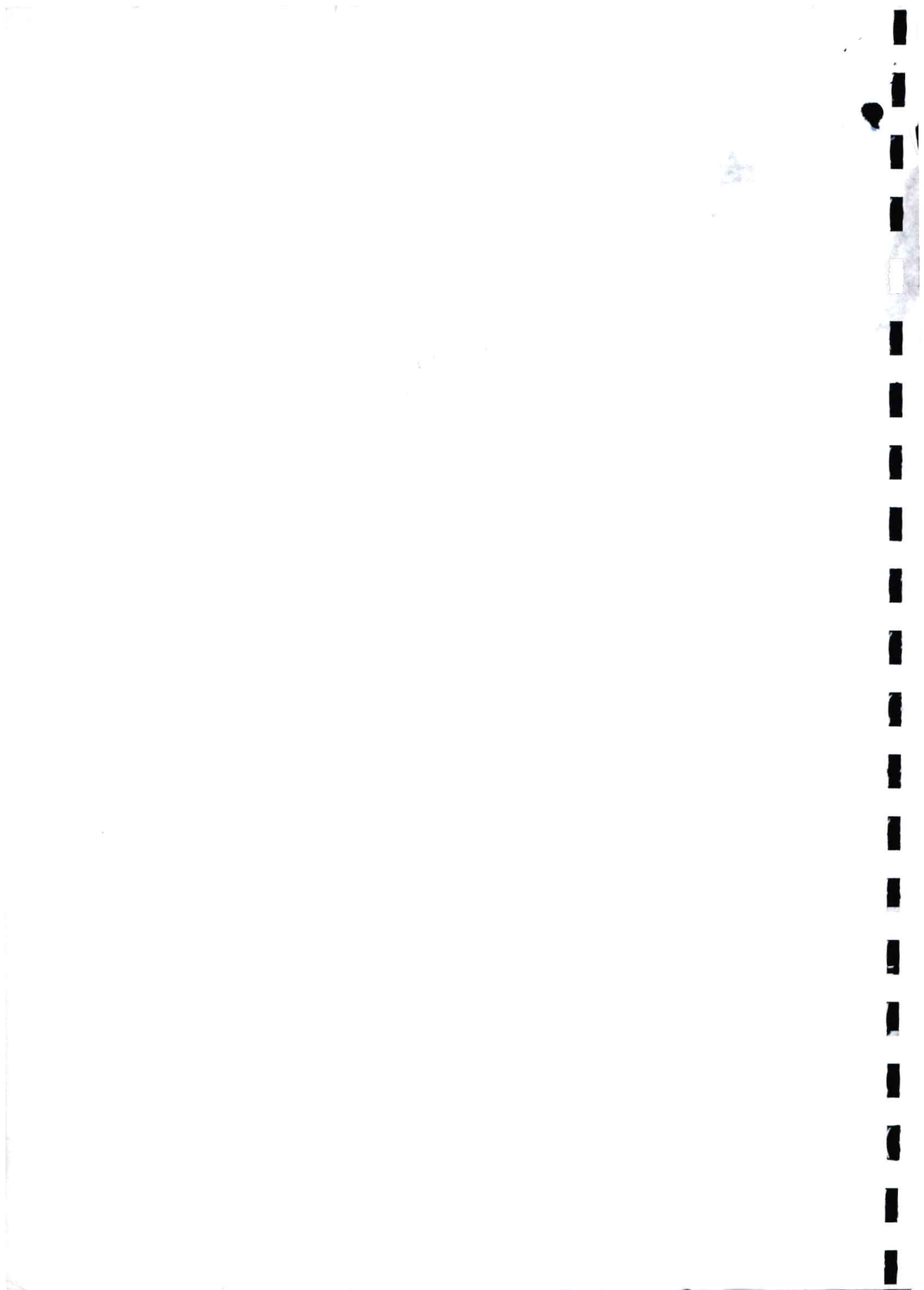
**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
TEA BOARD OF KENYA**

**FOR THE PERIOD ENDED  
31 JULY 2014**





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**THE TEA BOARD OF KENYA**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL PERIOD ENDED  
JULY 31, 2014**

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

# TEA BOARD OF KENYA

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## TEA BOARD OF KENYA

### I. KEY TEA BOARD OF KENYA INFORMATION AND MANAGEMENT

#### (a) Background information

The Tea Board of Kenya is a State Corporation under the Ministry of Agriculture Livestock & Fisheries (MOALF). It was established as a State Corporation under the Tea Act Cap. 343 in 1950 and is charged with the responsibility of regulating and promoting the tea industry and to facilitate research into all aspects of tea growing, manufacture, pest and disease control. The Board also oversees the smooth and orderly functioning of the industry through policy guidance, licensing, registration, and tea trade and market development.

#### (b) Principal Activities

The regulatory functions of the Board are to:-

- a) Licence tea manufacturing factories.
- b) Register tea growers, buyers, brokers, packers and warehousemen.
- c) Facilitate research into tea growing, manufacture and pest and disease control.
- d) Monitor tea trading.
- e) Promote Kenya tea in both the domestic and international markets.
- f) Disseminate information.

To achieve its objectives, the Board works closely with all Sub-sectorial organizations including Kenya Tea Development Agency Ltd., the Kenya Tea Growers Associations, the East African Tea Trade Association, the Tea Research Foundation of Kenya and other local and international organizations involved with tea.

#### Key Management

The Tea Board of Kenya's day-to-day management is under the following key organs:

Ag. Managing Director;

#### (c) Fiduciary Management

The key management personnel who held office during the financial period ended 31st July 2014 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Ag. Managing director	Elizabeth W. Kimenyi (Mrs)

#### (d) Fiduciary Oversight Arrangements

Ministry of Agriculture (MOALF)

## TEA BOARD OF KENYA

### **(e) Tea Board of Kenya Headquarters**

#### **Registered Office**

The Tea Board of Kenya  
Naivasha Road off Ngong Road  
P.O. Box 20064-00200  
**NAIROBI-KENYA**

### **(f) Tea Board of Kenya Contacts**

Telephone: +254-3872497/3874446/0  
Fax Nos. +254-3862120/3876337  
Email: [info@teaboard.or.ke](mailto:info@teaboard.or.ke)  
Website: [www.teaboard.or.ke](http://www.teaboard.or.ke)

### **(g) Tea Board of Kenya Bankers**

1. National Bank of Kenya Ltd.  
Harambee Avenue  
P.O. Box 41862-00100  
**NAIROBI- KENYA**
2. Citibank  
Upper Hill Road  
P.O. Box 30711-00100  
**NAIROBI-KENYA**
3. Co-operative Bank of Kenya Ltd.  
Parliament Road  
P.O. Box 5772-00200  
**NAIROBI-KENYA**
4. CFC Stanbic Bank Kenya Ltd.  
Chiromo Road  
P.O. Box 30550-00100  
**NAIROBI- KENYA**

### **(h) Independent Auditors**

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

## TEA BOARD OF KENYA

### (i) Principal Legal Adviser

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







Office	Location	Box No.	Telephone
Mombasa Office	Tea Board House Ngonyo Road	P.O. Box 90346-80100 <b>MOMBASA</b>	2314668/2313059
Kericho Office	Ndege Chai House 1 <sup>st</sup> Floor Room 4	P.O. BOX 1615-20200 Kericho-Nakuru Highway <b>KERICHO</b>	30056/020- 2440652
Embu Office	Cylet Plaza 3 <sup>rd</sup> Floor	P.O. Box 2745 Kubu kubu Road <b>EMBU</b>	020-2513492






### II. THE BOARD OF DIRECTORS

1. Insert each Director's passport-size photo and name, and key profession/academic qualifications	Provide a concise description of each Director's date of birth, key qualifications and work experience
2. Director 2	N/A
3. Director 3	N/A
4. Director 4	N/A
5. Etc.	N/A

## TEA BOARD OF KENYA

### III. MANAGEMENT TEAM

1. Passport –Size photo	Area of Responsibility
2. Mrs. Elizabeth W. Kimenyi 	Ag. Managing Director
3. Mrs. Phrasiah W. Mwangi 	Finance & Administration Manager
4. Mr. Samuel O. Ogola 	Technical Services Manager
5. Ms. Rosemary A. Owino 	Trade & Promotion Manager
6. Mr. Julius M. King'oo 	Trade Compliance Manager
7. Ms. Beatrice W. Githinji 	Internal Auditor

<p>8. Mrs. Nelly C. Mulema</p> 	<p>Human Resource Executive</p>
<p>9. Mr. Philip Cheruiyot</p> 	<p>Corporate Relations Executive</p>
<p>10. Mrs. Peris W. Mudida</p> 	<p>Legal Services Executive</p>
<p>11. Mr. Amos M. Mulievi</p> 	<p>Information Communication Technology Executive (ICTE)</p>
<p>12. Mr. Peter N. Kibiku</p> 	<p>Research &amp; Information Executive</p>
<p><i>Note: The CEO and the Company Secretary will feature both under the 'Board' and 'Management'.</i></p>	

## TEA BOARD OF KENYA

### IV. REPORT OF THE CHIEF EXECUTIVE OFFICER

I am pleased to present the Financial Report & Accounts of the Tea Board of Kenya for the period ended 31st July 2014.

In the period under review the industry recorded a slight drop in production volumes from 437 million Kgs in 2012/2013 to 432 million Kgs in 2013/2014. The industry maintained its lead in export earnings which improved from KShs. 112 billion in 2012 to KShs. 115 in 2013. Further, the local market generated an increased income from KShs. 15 billion to KShs. 22 billion in 2013 putting the total earnings from tea at KShs. 137 billion.

The Tea Board of Kenya implemented a wide range of programs to facilitate the growth of the industry. Among the key activities was working in conjunction with the Government to facilitate implementation of the new Tea (Amendment) Act, 2011 and the Constitution as part of on-going reforms to improve the industry and the country at large. The Board looks forward to working with all Stakeholders to ensure implementation of the new Act and other initiatives. Further, the Board will continue providing advice to Government on pertinent policy matters.

The Board continued to discharge its mandate of regulating the industry and promoting Kenya tea in the local and international markets. To facilitate TBK execute its mandate more effectively, implementation of the Ad Valorem Levy on tea exports and imports continued into 2013/2014 having commenced from 28<sup>th</sup> February 2012.

During the year, the Board's income including collection for Tea Research Foundation of Kenya and for Industry infrastructure and other incomes decreased from KShs 1.1 billion recorded the previous year to KShs 965 million on account of low collection of Tea Ad Valorem Levy on exports due to low auction prices occasioned by glut in the world market. Included in the above sum is a grant of KShs. 2.73 million for tea promotion from the Government to supplement other incomes as provided for in the annual budget.

About 77% of the Board's income was utilized in development programs such as research on tea undertaken through the Tea Research Foundation of Kenya (TRFK) as well as funding of market development activities. International generic tea promotion was carried out through various Tea Councils and Associations in key tea consuming countries. During the year, TBK coordinated trade and exploratory missions to some of the new/emerging and traditional markets. They included trade missions to Sudan and Pakistan; Gulf Food Festival in the United Arab Emirates and West African Market Research for Nigeria, Niger, Togo and Ghana.

Locally, the Tea Board of Kenya sustained its generic promotion activities across the country.

On project implementation, the Board through a competitive bidding enlisted the services of a Building Contractor for the Nairobi Office Building Phase II, which by the end of the financial year had progressed to final finishing and interior designs. Mombasa office building Project Progressed to the level where the project consultants submitted the bills of quantities and the Board sought approval to proceed to Tender stage from the MOALF.

## TEA BOARD OF KENYA

The Board also concluded formulation of the new Strategic Plan 2013-2017 to guide the development of the industry during the period. The organisation structure was also reviewed in line with the provisions in the strategic plan.

To sustain excellent service delivery, TBK continued to operate within the ISO 9001:2008 Standards. The certifying body carried out surveillance audit in August 2013 and recommended that the Board's system continue with certification of ISO 9001:2008.

The Tea Board of Kenya reiterates its commitment to live by its vision of "To facilitate the industry in positioning Kenyan tea as the preferred Tea in the world" and mission "To promote sustainable and globally competitive production and marketing of high quality Kenyan tea through excellence in service delivery".

Thank you

### V. CORPORATE SOCIAL RESPONSIBILITY (CSR)

In the financial period under review 2013/2014, the Tea Board of Kenya, carried out Corporate Social Responsibility programmes worth Kshs1.9 million. The programmes were undertaken in line with the CSR Policy which is anchored on the following principles:

- Environmental conservation and sustainability activities.
- Community/Neighbourhood Relations through philanthropic donations and sponsorship.
- Employee participation in community welfare and social programmes such as environment cleaning, blood donation etc.
- National support programmes, including alleviation of hunger and disaster response

The specific programmes that were supported include:

- Tree planting in conjunction with five County Governments, namely: Kirinyaga; Bomet; Nyamira and Nandi. Over 10,000 trees were planted.
- CSR donations to needy institutions, including: Kisii Special School for the Mentally Handicapped; MCK Hope Preparatory & Childrens Home in Nyeri County; Allomano Boys & Girl's Centre in Meru County; Kapsara District Hospital (KEPI/MOH) in Trans Nzoia County; Nukiat Primary School in Nandi; Youth Outreach Programme in Embu County; Cheryl's Children's Home in Nairobi; New Life Children's Home in Nairobi; Kabete Rehabilitation Centre in Kiambu County

Donation to Kenya Red Cross towards West Gate Terrorist Tragedy.

## TEA BOARD OF KENYA

### VI. REPORT OF THE MANAGEMENT

The management submit their report together with the audited financial statements for the thirteen months period ended July 31, 2014 which show the state of the Tea Board of Kenya's affairs.

#### **Principal activities**

The principal activities of the Tea Board of Kenya are as stated above.

#### **Results**

The results of the Tea Board of Kenya for the period July 2013 to July 31, 2014 are set out on page 11 to 33

#### **Directors**

N/A

#### **Auditors**

The Auditor General is responsible for the statutory audit of the **Tea Board of Kenya** in accordance with the Section 68 of the Public Finance Management (PFM) Act, 2012, which empowers the Auditor General to carry out the audit on the Board's books of accounts..

By Order of the Management

## TEA BOARD OF KENYA

### VII. STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

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

The Management are responsible for the preparation and presentation of the Tea Board of Kenya's financial statements, which give a true and fair view of the state of affairs of the Tea Board of Kenya for and as at the end of the financial year (period) ended on July 31, 2014. 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 Tea Board of Kenya; (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 Tea Board of Kenya; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Management accept responsibility for the Tea Board of Kenya'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 Public Financial Management (PFM) Act and the State Corporations Act. The Directors/ Management are of the opinion that the Tea Board of Kenya's financial statements give a true and fair view of the state of Tea Board of Kenya's transactions during the financial period ended July 31, 2014, and of the Tea Board of Kenya's financial position as at that date. The Directors/ Management further confirm the completeness of the accounting records maintained for the Tea Board of Kenya, which have been relied upon in the preparation of the Tea Board of Kenya's financial statements as well as the adequacy of the systems of internal financial control.

On 1<sup>st</sup> August 2014, the Board ceased to be a going concern as all its operations were taken over by the Agriculture Fisheries and Food Authority (AFFA), as provided for by section 3 (4) of the first schedule of the AFFA Act 2013. In view of the above, the Board shall not continue as going concern in light of the changes in the law.

#### Approval of the financial statements

The Tea Board of Kenya's financial statements were approved by the Management in September 2014, and signed on its behalf by:



Elizabeth W. Kimenyi (Mrs.)  
Ag. Managing Director



Mr. Clement Muyesu  
Principal Secretary's Representative

# REPUBLIC OF KENYA

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Website: www.kenao.go.ke



P.O. Box 30084-00100  
NAIROBI

## KENYA NATIONAL AUDIT OFFICE

### REPORT OF THE AUDITOR-GENERAL ON TEA BOARD OF KENYA FOR THE THIRTEEN MONTHS PERIOD ENDED 31 JULY 2014

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#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Tea Board of Kenya set out on pages 11 to 33, which comprise the statement of financial position as at 31 July 2014, the statement of financial performance, statement of changes in net assets, statement of cash flows, statement of comparison of budget and actual amounts for the thirteen months 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 International Public Sector Accounting Standards (Accrual Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 on 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 entity'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.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

### **Basis for Qualified Opinion**

#### **1. Procurement of Consultancy Services**

On 8 December 2011, the Board awarded a consultancy contract to M/s M. A. Consultancy Group to carry out a feasibility study on Tea Value Addition Facilities for a contract price of Kshs.13,205,919.70 and a contract period of seven (7) months commencing December 2011 and ending in June 2012, "or any other period(s) as may be subsequently agreed by the parties in writing."

The consultants were paid an amount of Kshs.6,602,959.85 (or 50% of the contract price). However, the mid-term report submitted by the consultants for Board approval was rejected as it was deemed sub-standard. As a result of the submission of a sub-standard report by the consultants, the Board terminated the contract on 14 June 2012.

However, in a bid to forestall and avoid a legal suit by the consultants, the Board, instead of going for fresh tendering, agreed to resume the terminated contract with M/s M. A. Consulting on condition that the consultants substituted the technical staff assigned to the project and the Board paying an extra Kshs.1,320,591.97 ostensibly to absorb the inflation aspect as well as additional consultation and reimbursables. However, the following issues have not been explained:

- (i) No explanation has been given for failing to go for fresh tendering after terminating the initial contract.
- (ii) No explanation has been provided for negotiating and re-engaging the consultants for a consultancy they had failed to deliver as agreed.
- (iii) No explanation has been provided for agreeing to pay the consultants an extra Kshs.1,320,591.97 instead of considering seeking compensation from the consultants for failing to deliver on their mandate.
- (iv) No disclosure has been made on total payments to the consultants to date.

In view of the above anomalies, the Board cannot be said to have obtained value for money from the undertaking.

## **2. Depreciation of Assets**

### **(i) Depreciation Policy**

Note 2(e)(i) to the financial statements indicates that motor vehicles are depreciated on a straight line basis while all other assets are depreciated on the reducing balance method. No explanation has been provided for the failure to observe the accounting principle of consistence.

### **(ii) Depreciation Rates**

Note 2(e)(i) to the financial statements also reflects depreciation rates on assets that do not conform to the rates applied under Best Practice. Although Best Practice provides for depreciation on buildings at 2%, the Board depreciates buildings in Dagoretti and Mombasa at 2.5%; buildings in Kericho at 3.3%, and the building at Jamhuri Park at 20%. In addition, the Board depreciates plant and electronic equipment at 20% instead of 12.5% for plant and 33.3% for electronic equipment. Further, motor vehicles are depreciated at 20% instead of 25% while office furniture and equipment are depreciated at 15% instead of 12.5%.

No explanation has been given for the above anomalies, as a result of which, the accuracy of the net book values of assets reflected in the financial statements could not be confirmed.

## **3. Procurement of Goods and Services - Failure to Notify Public Procurement Oversight Authority of use of Direct Procurement Method**

The Board procured a motor vehicle and consultancy services for Kshs.4,325,245.00 and Kshs.10,894,883.75 from M/s Toyota (K) Ltd and M/s M. A. Consulting Group respectively through direct procurement method. However, the Board did not notify the Public Procurement Oversight Authority of the use of this method as required by Regulation 62(3) of the Public Procurement and Disposal Regulations, 2006, which requires a procuring entity that procures goods and services exceeding Kshs.500,000.00 to report such procurement to the Authority within 14 days of notification of award of contract.

### **Qualified Opinion**

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Tea Board of Kenya as at 31 July 2014 and of its financial performance and its cash flows for the period then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Tea Act, (Cap.343), Tea (Amendment) Act, 1999 and Tea (Amendment) Act, 2011.



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

**Nairobi**

**13 May 2015**

**TEA BOARD OF KENYA**


**II. STATEMENT OF FINANCIAL PERFORMANCE  
FOR THE THIRTEEN MONTHS ENDED 31<sup>ST</sup> JULY 2014**


		<b>2013/2014</b>	<b>2012/2013</b>
		KSHS.	KSHS.
Tea Ad valorem Levy	3	964,941,352	1,039,702,061
Government Grants	4	2,736,000	8,640,000
		<b>967,677,352</b>	<b>1,048,342,061</b>
<b>Revenue from exchange transactions</b>			
Produce cess collection fee	5	4,004,928	4,809,622
Interest received on Short Term Deposits	6	46,831,389	46,428,785
Rent Income	7	2,149,019	2,263,699
Miscellaneous Income	8	3,429,588	4,608,955
		56,414,924	<b>58,111,061</b>
<b>Total Income</b>		<b>1,024,092,276</b>	<b>1,106,453,122</b>
<b><u>EXPENDITURE</u></b>			
<b>Administration and Support Services:</b>			
Staff Cost	9	82,289,537	77,276,780
Depreciation & Amortisation Expense	10	15,328,857	14,294,377
Other operating expenses	11	63,311,587	45,109,687
Technical expenses	12	10,438,363	12,276,956
Trade and Promotion	13	103,911,123	103,826,757
Disbursements	14	469,819,721	400,116,236
<b>Total Expenses</b>		<b>745,099,189</b>	<b>652,900,793</b>
Gain on Exchange differences	15	62,521	(704,265)
<b>Loss on Disposal</b>		-	10,658,628
<b>Surplus for the period</b>		<b>279,055,609</b>	<b>443,597,965</b>

**TEA BOARD OF KENYA**  
**XII. STATEMENT OF FINANCIAL POSITION**  
**AS AT 31<sup>ST</sup> JULY 2014**

		<b>2013/2014</b>	<b>2012/2013</b>
		<b>KSHS.</b>	<b>KSHS.</b>
<b>ASSETS</b>			
<b>Current assets</b>			
Receivables	16	10621609	12,512,690
Cash and cash equivalents	17	896,063,492	792,071,603
		<b>906,685,101</b>	<b>804,584,293</b>
<b>Non-current assets</b>			
Property, plant and equipment	18	479,730,567	338,130,042
Intangible Assets	19	2,223,838	1,513,019
		481,954,405	339,643,061
<b>TOTAL ASSETS</b>		<b>1,388,639,506</b>	<b>1,144,227,354</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Payables and accruals	20	369,904,555	283,766,267
<b>Total Liabilities</b>		<b>369,904,555</b>	<b>283,766,267</b>
<b>Net Assets</b>		<b>1,018,734,951</b>	<b>860,461,087</b>
<b>CAPITAL AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Capital		52,313,155	52,313,155
Promotion		67,780,485	67,780,485
Research & Development		118,959,358	118,959,358
General		689,607,859	531,333,995
Revaluation reserve		90,074,094	90,074,094
<b>Total net assets and liabilities</b>		<b>1,018,734,951</b>	<b>860,461,087</b>

The Financial Statements set out on pages 11 to 33 were signed on behalf of the Board of Directors by:

  
 Elizabeth W. Kimenyi (Mrs )  
 Ag. Managing Director

  
 Mr. Clement Muyesu  
 Principal Secretary's Representative

Date... 4<sup>th</sup> MAY 2015

Date... 4<sup>th</sup> May 2015

**TEA BOARD OF KENYA**  
**III. STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE PERIOD ENDED 31 JULY 2014**

	Capital KShs.	Promotion KShs.	Research & Development KShs.	General Reserve KShs.	Revaluation Reserve KShs.	Total KShs.
As at 1st July 2012	52,313,155	67,780,485	118,959,358	75,775,301	90,074,094	404,902,393
Restatement of Creditors				11,960,730		11,960,730
Surplus for the year			-	443,597,964		443,597,964
At 30th June 2013	<b>52,313,155</b>	<b>67,780,485</b>	<b>118,959,358</b>	<b>531,333,995</b>	<b>90,074,094</b>	<b>860,461,087</b>
As at 1st July 2013	52,313,155	67,780,485	118,959,358	531,333,995	90,074,094	860,461,087
Reinstatement of Creditors	-	-	-	(120,781,745)	-	(120,781,745)
Surplus for the period	-	-	-	279,055,609	-	279,055,609
<b>At 31<sup>st</sup> July 2014</b>	<b>52,313,155</b>	<b>67,780,485</b>	<b>118,959,358</b>	<b>689,607,859</b>	<b>90,074,094</b>	<b>1,018,734,851</b>

**TEA BOARD OF KENYA**  
**XIV. STATEMENT OF CASH FLOWS**

	<b>2013/2014</b>	<b>2012/2013</b>
Cash flows from operating activities	Kshs	Kshs
Net surplus for the year	279,055,609	443,597,964
Adjustments		
Depreciation	15,328,857	14,294,377
Loss/Gain on Disposal		10,658,629
Interest Received	(46,831,389)	(46,428,785)
Prior Year Adjustment	(120,781,745)	11,960,730
Operating loss before Working Capital Changes	<u>126,771,332</u>	<u>434,082,915</u>
(Increase)/Decrease in receivables and prepayments	1,891,082	(3,526,175)
Increase/(decrease) in payables	86,138,287	126,638,323
Cash generated from operations	<u>88,029,369</u>	<u>123,112,148</u>
Cash flows from Investing Activities		
Proceeds from sale of property, plant and equipment	-	1,255,000
Interest received	46,831,389	46,428,785
Purchase of property ,plant and equipment	(157,640,200)	(87,330,294)
Net Increase/(Decrease) in cash and cash equivalent	<u>103,991,890</u>	<u>517,548,554</u>
Cash and cash equivalent at the beginning	792,071,602	274,523,048
Cash and cash equivalent at the end of the year	<u>896,063,492</u>	<u>792,071,602</u>

TEA BOARD OF KENYA

IV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

<u>TITLE DETAILS</u>	2013/2014 ANNUAL BUDGET	ADJUSTMENTS	2013/2014 FINAL BUDGET JUL/JUNE 2014	2013/2014 ACTUALS JUL/JUNE 2014	PERFORMANCE VARIANCE
	KSHS	KSHS	KSHS	KSHS	KSHS
<b>A: RECURRENT INCOME</b>					
Tea Levy - 50% TBK	382,626,766	(203,072,062)	585,698,828	482,470,676	(103,228,152)
- 40%TRFK	306,101,413	(162,457,649)	468,559,062	385,976,541	(82,582,521)
- 10%Infrastructure	76,525,353	(40,614,413)	117,139,765	96,494,135	(20,645,630)
Interest received on S/T Deposits	17,934,574	3,219,257	14,715,316	46,831,389	32,116,072
Produce Cess Collection Fee	4,728,786	-	4,728,786	4,004,928	(723,857)
Rental Income	2,142,723	(896,388)	3,039,111	2,149,019	(890,091)
Miscellaneous Income	8,666,667	6,196,057	2,470,610	3,429,588	958,978
Government Grant	-	(2,340,000)	2,340,000	2,736,000	396,000
Exchange Differences	-	(1,660,488)	1,660,488	62,521	(1,597,967)
<b>Total Income</b>	<b>798,726,280</b>	<b>(401,625,686)</b>	<b>1,200,351,966</b>	<b>1,024,154,797</b>	<b>(176,197,168)</b>
<b>B: EXPENDITURE</b>	-	-	-	-	-
<b>Recurrent Expenditure</b>	-	-	-	-	-
Administration & Operations	-	-	-	-	-
Audit Fees	691,167	-	691,167	638,000	53,167
Board Members Expenses	14,468,567	(13,926,900)	541,667	-	541,667
Staff Training	11,511,663	-	11,511,663	7,136,965	4,374,698
Medical Expenses	7,366,667	-	7,366,667	7,530,985	(164,319)
General Expenses	8,090,579	-	8,090,579	7,547,126	543,454
Office Expenses	11,100,130	-	11,100,130	9,192,064	1,908,066
Vehicle Running Expenses	3,703,326	-	3,703,326	3,482,145	221,181
Insurance	5,239,727	-	5,239,727	3,021,940	2,217,787
Local Travelling Expenses	4,385,369	931,075	5,316,444	4,659,497	656,947
Security/Property Maintenance	8,088,114	-	8,088,114	7,943,310	144,804
Legal Services /Task Force Rpt Implementation	6,747,758	(2,166,667)	4,581,092	2,711,797	1,869,295
Ad valorem Levy Refunds	-	-	-	11,852,497	1,852,497)
<b>Sub-Total</b>	<b>81,393,066</b>	<b>(15,162,491)</b>	<b>66,230,575</b>	<b>65,716,326</b>	<b>514,248</b>

**TEA BOARD OF KENYA**

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

Staff Costs	-	-	-	-	-
Salaries & Wages	137,361,031	(71,763,003)	65,598,028	57,380,849	8,217,179
Staff Gratuities	24,740,355	(11,734,310)	13,006,046	10,240,739	2,765,307
Sub-Total	162,101,386	(83,497,313)	78,604,073	67,621,587	10,982,486
<b>Trade Compliance services</b>	-	-	-	-	-
Trade Advisory Expenses	8,125,000	(3,791,667)	4,333,333	2,777,574	1,555,759
<b>Sub-Total</b>	<b>8,125,000</b>	<b>(3,791,667)</b>	<b>4,333,333</b>	<b>2,777,574</b>	<b>1,555,759</b>
<b>Technical Support Services</b>	-	-	-	-	-
Technical Support Services Expenses	14,482,813	-	14,482,813	7,660,789	6,822,023
<b>Sub-Total</b>	<b>14,482,813</b>	<b>-</b>	<b>14,482,813</b>	<b>7,660,789</b>	<b>6,822,023</b>
Trade & Promotion	-	-	-	-	-
Japan Tea Association	432,772	(191,730)	241,042	270,577	(29,536)
Tea Council of Canada	1,885,454	(251,191)	1,634,263	1,405,767	228,495.70
Tea Council of U.K.	10,251,631	-	10,251,631	9,146,911	1,104,720
International Tea Committee	1,413,957	(295,952)	1,118,004	1,018,453	99,551
Tea Council of U.S.A.	1,201,583	-	1,201,583	1,296,159	(94,577)
Germany Tea Council	3,262,586	(493,087)	2,769,498	2,789,395	(19,896)
Tea Promotion Overseas	8,027,283	-	8,027,283	7,396,105	631,178
Overseas Conference Expenses	3,169,539	-	3,169,539	2,205,169	964,370
Generic Tea Promotion & Market Devpt	72,927,239	-	72,927,239	67,088,841	5,838,397
Overseas Promotion offices	22	-	22	-	-
Export Documentation-ERP	2,617,013	-	2,617,013	2,422,219	194,793
Contingencies	411,268	(216,667)	194,601	162,021	32,581
Sub-Total	105,600,343	(1,448,627)	104,151,716	95,201,616	8,950,078
<b>Corporate Relations</b>	-	-	-	-	-
Public relations & Corporate Branding	17,594,417	-	17,594,417	11,837,948	5,756,469
Corporate Social responsibility	2,166,667	-	2,166,667	1,968,966	197,701
<b>Sub-Total</b>	<b>19,761,083</b>	<b>-</b>	<b>19,761,083</b>	<b>13,806,914</b>	<b>5,954,170</b>

**TEA BOARD OF KENYA**  
**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**

<b>Research- Disbursement</b>	-	-	-	-	-
Tea Research Foundation -LEVY	306,101,413	162,457,649	468,559,062	382,265,304	86,293,758
Sub-Total	306,101,413	162,457,649	468,559,062	382,265,304	86,293,758
Industry dev't Programs &	23,833,333	-	23,833,333	10,609,507	13,223,827
<b>Tea Value Addition</b>	-	-	-	-	-
Infrastructure	76,525,353	40,614,413	117,139,765	87,554,417	29,585,348
Total Recurrent Expenditure	797,923,790	99,171,964	897,095,753	733,214,034	163,881,719
Surplus	802,490	(500,797,649)	303,256,212	290,940,763	12,315,449
<b>C: CAPITAL EXPENDITURE</b>	-	-	-	-	-
Office Equipment & Furniture	9,208,333	(767,361)	8,440,972	85,005	8,355,967
Motor Vehicles	5,416,667	(451,389)	4,965,278	4,325,245	640,033
Office Building-Nairobi Phase 2	195,000,000	(16,250,000)	178,750,000	141,696,879	37,053,121
Office Building-Mombasa	70,416,667	(5,868,056)	64,548,611	9,634,072	54,914,539
Kericho property	6,500,000	(541,667)	5,958,333	-	5,958,333
<b>Total Capital Expenditure</b>	<b>286,541,667</b>	<b>(23,878,472)</b>	<b>262,663,194</b>	<b>155,741,201</b>	<b>106,921,994</b>

**VARIANCE ANALYSIS**

The Board budget is an activity based budgeting guided by the programmes to be undertaken during the financial period. During the year the Board reviews its budget depending on the performance of individual programme/ activities. The review is done after the first six months of the financial year.

## TEA BOARD OF KENYA

### XVI. NOTES TO THE FINANCIAL STATEMENTS

#### 1. Statement of compliance and basis of preparation

The Tea Board of Kenya's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Tea Board of Kenya. The accounting policies have been consistently applied to all the years presented. However this is the first time adoption of International Public Sector Accounting Standard on the Board's accounts for the thirteen months ended 31<sup>st</sup> July 2014.

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

#### 2. Summary of significant accounting policies

##### a) Revenue recognition

##### i) Revenue from non-exchange transactions

###### **Tea Ad valorem Levy**

The Tea Board of Kenya recognizes revenues from levies when the event occurs and the asset recognition criteria are met. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the Tea Board of Kenya and the fair value of the asset can be measured reliably.

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

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset 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 Tea Board of Kenya and can be measured reliably.

##### ii) Revenue from exchange transactions

###### ***Rendering of services***

The Tea Board of Kenya recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours.

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

###### ***Sale of goods***

Revenue from the sale of goods 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 Tea Board of Kenya.

**TEA BOARD OF KENYA**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

***Other incomes***

Other income is based on income from tenders and registration fees, sponsorships, disposal of boarded items and sale of tenders.

***Interest income***

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

***Rental income***

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 Tea Board of Kenya. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or Tea Board of Kenya 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. The budget is prepared in accordance to the Treasury guidelines on non-commercial entities as an activity based budgeting.

**d) 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. The investment property in Nairobi Dagoretti Buildings are depreciated at the rate of 2.5% per annum while the Kericho house is depreciated at 3.3% per annum on the reducing balance method in both cases.

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

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

**e) Property, plant and equipment**

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 Tea Board of Kenya recognizes such parts as individual assets with specific useful lives and depreciates

**TEA BOARD OF KENYA**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

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.

**Depreciation policy and rates**

- (i) No depreciation is provided on freehold land and long leasehold land. Motor vehicles are depreciated on a straight line basis to write off the cost or valuation over their estimated useful life.
- (ii) Depreciation on buildings, property, plant, electronic equipment, water tanks, office furniture and other office equipment has been calculated on the reducing balance method.

The rates in use are -

Dagoretti Buildings	-	2.5%
Kericho Building	-	3.3%
Mombasa Building	-	2.5%
Water Tanks	-	15%
Plant and Electronic Equipment	-	20%
Motor Vehicles	-	20%
Office Furniture & Equipment	-	15%
Building on Short Leasehold Land	-	The property is on a five-year renewable Lease after every five years from Agricultural Society of Kenya since 2001/2002. The Jamhuri Park building has been depreciated at the rate of 20% based on the leasehold period.

**Derecognition of property plant and equipment**

All property, plant and equipment properties are derecognized either when they have been disposed of or when the properties are 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.

**f) Leases**

Tea Board of Kenya has operating leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item.

**g) 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.

**TEA BOARD OF KENYA**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

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

Intangible assets are amortized at a rate of 33% per annum on a reducing balance basis to write off the cost or valuation over their estimated useful life.

De recognition

All Intangible assets are derecognized either when they have been disposed of or when the assets are 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.

**h) Research and development costs**

The Tea Board of Kenya expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Tea Board of Kenya can demonstrate:

- The technical feasibility of completing the asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits or service potential
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

**i) Financial instruments**

***Financial assets***

***Initial recognition and measurement***

Financial assets are classified as financial assets at fair value through surplus or deficit, receivables and held-to-maturity investments or available-for-sale financial assets, as appropriate. The Tea Board of Kenya determines the classification of its financial assets at initial recognition.

***Receivables***

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at cost using the effective interest method, less impairment. Losses arising from impairment are recognized in the surplus or deficit.

***Held-to-maturity***

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Tea Board of Kenya has the positive intention and ability

## **TEA BOARD OF KENYA**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)**

to hold it to maturity. After initial measurement, held-to-maturity investments are measured at cost using the effective interest method, less impairment. The losses arising from impairment are recognized in surplus or deficit.

#### ***Impairment of financial assets***

The Tea Board of Kenya assesses at each reporting date whether there is objective evidence that a financial asset or a Tea Board of Kenya of financial assets is impaired. A financial asset or a Tea Board of Kenya of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the Tea Board of Kenya of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or a Tea Board of Kenya of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

#### ***i) Financial liabilities***

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

Financial liabilities are classified as financial liabilities at fair value through surplus or deficit or payables and borrowings, as appropriate. The Tea Board of Kenya determines the classification of its financial liabilities at initial recognition.

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

#### **j) Provisions**

Provisions are recognized when the Tea Board of Kenya 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 Tea Board of Kenya 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.

**TEA BOARD OF KENYA**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

***Contingent liabilities***

The Tea Board of Kenya does not recognize a contingent liability, but discloses details of any contingencies 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 Tea Board of Kenya does not recognize a contingent asset, but discloses details 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 Tea Board of Kenya 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.

**k) Nature and purpose of reserves**

The Tea Board of Kenya creates and maintains reserves in terms of specific requirements. Tea Board of Kenya to state the reserves maintained and appropriate policies adopted.

i. Capital Reserve

Capital Reserves comprise of the accumulated balances from funds allocated for purchase and replacement of Assets (Land, buildings, vehicles, furniture and Equipment).

ii. Promotion reserve

These are accumulated balances remaining from amounts allocated for promotion of tea both in local and international markets.

iii. Research and development reserve

These are accumulated balances remaining from amounts allocated to research and development.

iv. Revaluation reserve

Revaluation reserve is comprised of surpluses arising from Board's Assets revaluation.

**l) Changes in accounting policies and estimates**

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

**m) Employee benefits**

**Retirement benefit plans**

**Gratuity and short term benefits**

**TEA BOARD OF KENYA**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

The Board employs its Staff on a three year contract who are entitled to gratuity payment on the completion of the contract. An appropriate provision is made for gratuity in line with the contracts of each Staff Member. The Board also contributes to National Social Security Fund for its employees. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

**n) Foreign currency transactions**

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

**o) Related parties**

The Tea Board of Kenya 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 Tea Board of Kenya, or vice versa. Members of key management are regarded as related parties and comprise the Managing Director and senior managers.

**Cash and cash equivalents**

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

**p) Comparative figures**

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

**q) Significant judgments and sources of estimation uncertainty**

The preparation of the Tea Board of Kenya's financial statements 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.

**TEA BOARD OF KENYA**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

***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 Tea Board of Kenya 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 Tea Board of Kenya. Such changes are reflected in the assumptions when they occur.

***Useful lives and residual values***

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

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

***Provisions and contingent liabilities***

The entity reviews its obligations at each financial position date to determine whether provisions need to be made and if there are any contingent liabilities.

**r) Subsequent events**

The Board have been subjected to changes on account of reforms taking place in the agricultural sector. The Board is to be merged with other Parastatals namely Coffee Board of Kenya, Kenya Sugar Board, Cotton Development Authority, Sisal Board, Kenya Coconut Development Authority, Horticultural Crops Development Authority and Fisheries to form Agriculture Fisheries and Food Authority (AFFA).

**s) Segment reporting**

The entity does not have any branches/reporting segments. All the operations of the entity are managed from the registered office. The core business of Tea Board of Kenya continues to be the responsibility of regulating and promoting the tea industry and to facilitate research into all aspects of tea growing, manufacture and pest and disease control. The Board also oversees the smooth and orderly functioning of the industry through policy guidance, licensing, registration, tea trade and market development together with other mandates as stipulated in the Tea Act Cap. 343.

**3. Tea Ad valorem Levy**

50% Tea Board of Kenya	482,470,676	519,851,030
40% Tea Research Foundation of Kenya	385,976,541	415,880,825
10% Infrastructure Funds	96,494,135	<u>103,970,206</u>
<b>sub total</b>	<b>964,941,352</b>	<b>1,039,702,061</b>

**TEA BOARD OF KENYA**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

The ad valorem levy income is charged on value of bulk Tea Exports/imports at a rate of 1% of the custom value. The Tea ad valorem levy is shared into 50%, 40% and 10% to Tea Board of Kenya, Tea Research Foundation of Kenya and Infrastructure fund respectively.

**4. Government Grants**

Transfer from Government- Recurrent	2,736,000	8,640,000
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Government Grants are accounted for under the Income approach where they are recognized as income over the periods necessary to match them with the related assets which they are intended to compensate on a systematic basis in accordance with IAS 20 – Accounting for Government Grants and Financial Assistance.

**5. Produce cess collection fee**

Cess collection fee	4,004,928	4,809,622
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Produce cess collection fee earned during the period was Kshs 4,004,928 (2012; Kshs 4,809,622). The produce cess is charged on the basis of 1% of the Agricultural produce cess collected by the Board as administration cost.

**6. Interest on Short Term Deposits**

Fixed deposits Accounts	45,147,481	45,592,316
Current accounts	1,683,908	836,469
<b>Total</b>	<b>46,831,389</b>	<b>46,428,785</b>

Interest Income is based on investments in Short Term Deposits, Treasury Bonds and Bills, which may be placed from time to time during the year on favourable interest rates. All Short-term deposits are stated at cost. Treasury approval was granted to hold deposits in the financial institutions in accordance with the existing Government circulars on the subject matter. Interest on short term deposits earned during the period was Kshs 46,831,389 (2013; Kshs 46,428,785).

**7. Rent Income**

Nairobi Property	1,778,019	1,611,141
Kericho House	371,000	298,500
Mombasa Office	-	354,058
	<b>2,149,019</b>	<b>2,263,699</b>

Property rental income earned during the period was Kshs 2,149,019 (2013; Kshs 2,263,699). The properties are maintained by the tenants at no cost to the Board. No investment properties have been disposed of since 1<sup>st</sup> July 2013

**TEA BOARD OF KENYA**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**8. Miscellaneous Income**

Registration	2,963,400	2,957,750
Marathon sponsorships	181,100	10,500
Others income	285,088	326,802
	<b>3,429,588</b>	<b>4,588,956</b>

Miscellaneous income is based on income from registration fees, Marathon sponsorships and other miscellaneous incomes comprising of sale of tenders, disposal of boarded items and others. The income earned during the period was Kshs 3,429,588 (2013; Kshs 4,588,956).

**9. Staff cost**

Salaries	57,380,849	54,557,639
Staff Training	7,136,965	5,421,395
Medical Expenses	7,530,985	5,906,834
Staff Gratuities	10,240,739	11,390,912
<b>Sub Total</b>	<b>82,289,538</b>	<b>77,276,780</b>

Staff costs comprises of all payments to staff including any benefits accrued as well as final dues. The staff costs during the period was Kshs 82,289,538 (2013; Kshs 77,276,780).

**10. Depreciation & Amortisation Expenses**

Property, plant and Equipment	14,139,676	13,549,160
Intangible assets	1,189,181	745,219
<b>sub total</b>	<b>15,328,857</b>	<b>14,294,379</b>

Depreciation is applied to property plant and equipment while amortisation is on intangible assets. The depreciation & amortisation costs during the period was Kshs 15,328,857 (2013; Kshs 14,294,379).

**11. Operating Expenses**

Audit Fees	638,000	580,000
General Expenses	7,547,126	6,870,026
Office Expenses	9,192,064	9,585,871
Vehicle Running Expenses	3,482,145	2,069,657
Insurance	1,478,238	2,362,155
Local Travel Expenses	4,659,497	,270,207
Security Property Maintenance	7,943,310	6,079,254
Task Force Expenses	2,711,797	223,595

Election Expenses	-	824,531
Jamhuri Park Promotion Expenses	-	3,423,022
Public Relations Expenses	11,837,948	10,472,163
Donations	1,968,966	349,207
Refunds on Levy costs	11,852,497	-
<b>Sub Total</b>	<b>63,311,587</b>	<b>45,109,687</b>

Operating expenses is applied to the general running on the Board matters. The operating expenses during the period was Kshs 63,311,587 (2013; Kshs 45,109,687).

#### 12. Technical expenses

Technical support services	7,660,789	12,276,956
Trade Compliance	2,777,574	-
<b>Sub Total</b>	<b>10,438,363</b>	<b>12,276,956</b>

Technical expenses relate to the running field programmes to meeting the cost of holding Stakeholders workshops, inspections and running costs of a field office in Kericho and East of Rift Valley at Embu, to enhance service delivery to Stakeholders. The Technical expenses during the period was Kshs 10,438,363 (2013; Kshs 12,276,956).

#### 13. Trade and promotion

Japan Tea Association	270,577	229,247
Tea Council of Canada	1,405,767	1,518,139
Tea Council of United Kingdom	9,146,911	8,481,781
International Tea Committee	1,018,453	973,393
Tea Council of the U.S.A	1,296,159	981,370
German Tea Council	2,789,395	2,160,062
Tea Promotion	7,396,105	3,958,067
Overseas Conference Expenses	2,205,169	1,808,677
Local Generic Tea Promotion & Market Development	67,088,841	59,629,548
Export Documentation	522,219	357,310
Contingencies	162,021	47,120
Tea Value Addition	10,609,507	23,682,044
<b>subtotal</b>	<b>103,911,123</b>	<b>103,826,758</b>

Trade and promotion comprise of maintaining/expanding tea markets in the local and international Markets, through membership subscription to various tea councils & Association, promotional activities targeting traditional and other emerging markets. The Trade & Promotion expenses during the year was Kshs 103,911,123 (2013; Kshs 103,826,758)

#### 14. Disbursements

Tea Research Foundation of Kenya	382,265,304	400,116,236
Infrastructure	87,554,417	-
<b>subtotal</b>	<b>469,819,721</b>	<b>400,116,236</b>

The Board disburses 40% of 1% of Tea Ad valorem levy collected to the Tea Research Foundation of Kenya and 10% of the same to infrastructure funds to stakeholders. The total disbursement during the period was Kshs 469,819,721 (2013; Kshs 400,116,236).

**TEA BOARD OF KENYA**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**15. Gain on exchange Differences**

Gain on exchange differences	62,521	704,265
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**16. Receivables and prepayments**

Debtors & Prepayments	9,972,340	12,279,057
Deposits With Suppliers	248,175	196,600
Staff Debtors	401,094	37,033
<b>Sub total</b>	<b>10,621,609</b>	<b>12,512,690</b>

The receivables and prepayments relate to the balances held by the Board as at 31st July 2014. The total balances during the period was Kshs 10,621,609 (2013; Kshs 12,512,690)

**17. Cash and cash Equivalent**

Short term deposits	611,503,809	698,446,170
Cash at Bank	284,480,332	93,582,313
Cash in Hand	79,351	43,120
<b>Total</b>	<b>896,063,492</b>	<b>792,071,603</b>

The cash and cash equivalent relate to the balances held by the Board as at 31st July 2014. The total balances during the period was Kshs. 896,063,492 (2013; Kshs 792,071,603)

**TEA BOARD OF KENYA**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

18. Property, Plant and Equipment

<b>COST / VALUATION</b>	<b>FREEHOLD PROPERTY</b>	<b>BUILDINGS</b>	<b>WORK IN PROGRESS</b>	<b>MOTOR VEHICLES</b>	<b>OFFICE EQUIPMENT 20%</b>	<b>OFFICE FURNITURE 15%</b>	<b>WATER TANKS</b>	<b>TOTALS</b>
At 1st July 2012	70,400,000	151,659,250	37,112,581	28,832,648	17,024,333	13,461,575	2,600,000	<b>321,090,387</b>
Additions	-	-	82,768,168		2,423,113	425,500	-	<b>85,616,781</b>
Less Disposal	-	(10,000,000)	-	(2,620,774)	-	-	(2,600,000)	<b>(15,220,774)</b>
<b>At 30th June 2013</b>	<b>70,400,000</b>	<b>141,659,250</b>	<b>119,880,749</b>	<b>26,211,874</b>	<b>19,447,446</b>	<b>13,887,075</b>	-	<b>391,486,394</b>
Additions			151,329,950	4,325,245	69,995	15,010	-	155,740,200
<b>At 31st July 2014</b>	<b>70,400,000</b>	<b>141,659,250</b>	<b>271,210,699</b>	<b>30,537,119</b>	<b>19,517,441</b>	<b>13,902,085</b>	-	<b>547,226,594</b>
<b>DEPRECIATION/AMORTIZATION</b>								
At 1st July 2012	-	16,848,237	-	14,633,259	6,761,198	3,868,368	1,003,275	<b>43,114,337</b>
Charge for the period	-	4,266,729	-	5,242,376	2,537,249	1,502,806		<b>13,549,160</b>
Release on Disposal	-	(731,406)	-	(1,572,464)	-	-	(1,003,275)	<b>(3,307,145)</b>
<b>At 30th June 2013</b>	-	<b>20,383,560</b>	-	<b>18,303,171</b>	<b>9,298,447</b>	<b>5,371,174</b>	-	<b>53,356,352</b>
Charge for the period	-	4,245,974	-	6,343,372	2,180,052	1,370,278		14,139,675
<b>At 31<sup>st</sup> July 2014</b>	-	<b>24,629,534</b>	-	<b>24,646,543</b>	<b>11,478,499</b>	<b>6,741,452</b>		<b>67,496,027</b>
<b>NET BOOK VALUE</b>								
<b>At 31<sup>st</sup> July 2014</b>	<b>70,400,000</b>	<b>117,029,716</b>	<b>271,210,699</b>	<b>5,890,576</b>	<b>8,038,942</b>	<b>7,160,633</b>	-	<b>479,730,567</b>
<b>At 30th June 2013</b>	<b>70,400,000</b>	<b>121,275,690</b>	<b>119,880,749</b>	<b>7,908,703</b>	<b>10,148,999</b>	<b>8,515,901</b>	-	<b>338,130,042</b>

TEA BOARD OF KENYA  
NOTES TO THE FINANCIAL STATEMENTS

(continued)

19. Intangible Assets

COST / VALUATION	INTANGIBLE ASSETS KSHS	TOTAL KSHS
At 1st July 2012	920,376	920,376
Additions	1,713,513	1,713,513
<b>At 30th June 2013</b>	<b>2,633,889</b>	<b>2,633,889</b>
Additions	1,900,000	1,900,000
<b>At 31<sup>st</sup> July 2014</b>	<b>4,533,889</b>	<b>4,533,889</b>
<b>DEPRECIATION/AMORTIZATION</b>		
At 1st July 2012	1,120,870	1,120,870
Charge for the period	1,126,296	1,126,296
<b>At 30th June 2013</b>	<b>2,247,166</b>	<b>2,247,166</b>
Charge for the period	62,885	62,885
<b>At 31<sup>st</sup> July 2014</b>	<b>2,310,051</b>	<b>2,310,051</b>
<b>NET BOOK VALUE</b>		
<b>At 31<sup>st</sup> July 2014</b>	<b>2,223,838</b>	<b>2,223,838</b>
<b>At 30th June 2013</b>	<b>1,513,019</b>	<b>1,513,019</b>

20. Payables and accruals

	<u>2013/2014</u> KSHS	<u>2012/2013</u> KSHS
Agricultural Produce Cess	68,376,590	130,880,312
Provision for Gratuity	15,736,722	19,457,375
Tea Research Foundation of Kenya	32,047,538	30,034,168
Amounts owed to Suppliers & Others	41,156,266	103,394,412
Infrastructure funds	212,587,439	-
<b>Total</b>	<b>369,904,555</b>	<b>283,766,267</b>

The payables relate to the balances held by the Board as at 31st July 2014. The total balances during the year was Kshs 369,904,555 (2013; Kshs 283,766,267)

**Credit risk management**

The Board's credit risk is primarily attributable to its other receivables and bank balances.

The amounts of receivables other than grants receivable presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Board's management based on prior experience and their assessment of the current economic environment.

The credit risk on receivables is limited because the over 94% of the Board's income (Ad Valorem Levy) is deposited by the tea traders into the Board's Account before they lodge their document for

**TEA BOARD OF KENYA**  
**NOTES TO THE FINANCIAL STATEMENTS** (continued)

clearance. All other incomes are received before the services are offered hence no chance of default on the part of the traders.

The credit risk on liquid funds with financial institutions is also low, because the counter parties are banks with high credit-ratings

**Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the Management, who have built an appropriate liquidity risk management framework. The Board manages liquidity risk by maintaining enough required funds for its operations through continuous monitoring of forecast and actual cash flows

	Less than 1 year KShs	Over 1 year KShs	Total KShs
Payables	349,668,492	20,236,063	369,904,555
<b>Total</b>	<b>349,668,492</b>	<b>20,236,063</b>	<b>369,904,555</b>

**Exchange risk**

The Board holds some of its bank balances in foreign currency. The fluctuations in currency exchange rates result in changes in the value of the monetary assets denominated in foreign currency hence expose the Board to the risk of incurring exchange losses. The monetary assets held in foreign currency are closely monitored to ensure that they are not materially affected by adverse foreign currency fluctuations. There are no other foreign currencies denominated financial assets or liabilities

At the end of the period, the foreign currency bank account had the following balance:

	Amount In foreign currency	Amount KShs
<b>At 31<sup>st</sup> July 2014</b>		
US dollar bank account	1,164,225	102,125,832
	<u>=====</u>	<u>=====</u>
<b>At 30<sup>th</sup> June 2013</b>		
US dollar bank account	552,851	47,549,291
	<u>=====</u>	<u>=====</u>

**TEA BOARD OF KENYA  
NOTES TO THE FINANCIAL STATEMENTS (continued)**

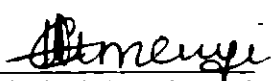
**PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**

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

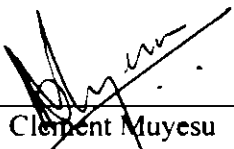
<b>Referen ce No. on the external audit Report</b>	<b>Issue / Observations from Auditor</b>	<b>Management comments</b>	<b>Focal Point person to resolve the issue (Name and designation)</b>	<b>Status: (Resolved / Not Resolved)</b>	<b>Timeframe: (Put a date when you expect the issue to be resolved)</b>

**Guidance Notes:**

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

  
Elizabeth W. Kimenyi (Mrs.)  
Ag. Managing Director

Date... 4<sup>th</sup> MAY 2015

  
Mr. Clement Muyesu  
Principal Secretary's Representative

Date... 4<sup>th</sup> May 2015

