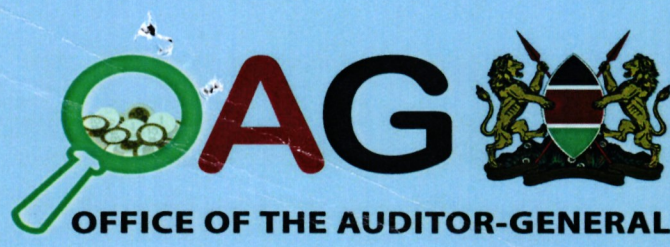


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REPORT

OF

THE AUDITOR-GENERAL

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| CHECKED BY: [Signature] | |

ON

**AGRICULTURAL FINANCE
CORPORATION**

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

108

OFFICE OF THE AUDITOR GENERAL
P. O. Box 2111, NAIROBI, KENYA

22 JAN 2021

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AGRICULTURAL FINANCE CORPORATION

ANNUAL REPORTS AND FINANCIAL STATEMENTS

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



**Prepared in accordance with the Accrual Basis of Accounting Method under the
International Financial Reporting Standards (IFRS)**

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KEY ENTITY INFORMATION

BACKGROUND INFORMATION

The Agricultural Finance Corporation (AFC), a wholly owned Government Development Finance Institution (DFI), was established in 1963 initially as a subsidiary of the Land and Agricultural Bank. In 1969, it was incorporated as a full – fledged financial institution under the Agricultural Finance Corporation Act, Cap 323 of the laws of Kenya. At cabinet level, the entity is represented by the Cabinet Secretary for the National Treasury, who is responsible for the general policy and strategic direction of the entity. The Corporation is domiciled in Kenya and has 47 numbers of branches in 35 counties.

INSTITUTIONAL MANDATE

The mandate of the Corporation is to assist in the development of Agriculture and agricultural industries by making loans to farmers, co-operative societies, incorporated group representatives, private companies, public bodies, local authorities and other persons engaging in agriculture or agricultural industries.

PRINCIPAL ACTIVITIES

The Corporation is primarily charged with the responsibility of providing credit facilities for the sole purpose of developing agriculture. The Corporation has since inception been able to discharge this responsibility through an expansive branch network, offering quality affordable, accessible financial products and services tailored to meet diverse and exclusive needs of Kenyan farmers.

VISION

“To be the Premier Agricultural Development Bank in Kenya.”

MISSION

“To provide sustainable financing through participative and collaborative financial and non-financial interventions, innovations, technology and products.”

KEY ENTITY INFORMATION (Continued)

CORE VALUES

To fulfill its mandate, pursue the Vision and accomplish its Mission, the AFC will be guided by its core values of:

- i) **Customer Focus** - We strive to put the customers' needs first and ensure we add value in their lives;
- ii) **Integrity** - We are committed to adhering to moral and ethical principles to ensure efficiency in service delivery;
- iii) **Dedication** - We are a responsible organization, committed to ensuring our intended clients, staff and partners are well served and, that we have a lasting impact on Kenya's agricultural sector;
- iv) **Partnerships and Teamwork** - We are committed to teamwork within the organization and partnering with different stakeholders in the market in the delivery of our services;
- v) **Social Responsibility** - We are committed to ensuring sustainability that strengthens our business, our workforce and the communities where we operate

KEY ENTITY INFORMATION (Continued)

BOARD OF DIRECTORS

The Directors who held office during the year and to the date of this report were as follows: -

| Name | | Appointment date |
|-------------------------------|---|-------------------------|
| Hon. Franklin Bett, EGH | Chairman | 05-May-2019 |
| Hon. David Kiptanui Koros | Member | 14-Dec-2018 |
| Prof. Dulacha Galgallo Barako | Alternate to the Cabinet Secretary The National Treasury | 30-Sep-2019 |
| Mr. John Musyoka Munywoki | Alternate to the Principal Secretary Ministry of Agriculture-Livestock & Fisheries | 14-Dec-2018 |
| Mr. Lucas Meso, MBS | Managing Director | 15-Sep-2018 |
| Mr. Richard Krop | Member | 14-Dec-2018 |
| Mrs. Rosemary Munio | Member | 14-Dec-2018 |
| Hon. Steven Kipkoech Mutai | Member | 14-Dec-2018 |
| Mrs. Muringo Kimamo | Member | 14-Dec-2018 |

CORPORATION SECRETARY

Mrs. Rose Ochanda
Development House,
Moi Avenue,
P.O Box 30367 – 00100 GPO
Nairobi.
Kenya

KEY ENTITY INFORMATION (Continued)

REGISTERED OFFICE

Development House,
Moi Avenue,
P.O Box 30367 – 00100 GPO
Nairobi.
Kenya.

CORPORATION CONTACTS

HEADQUARTER

Development House,
Moi Avenue,
P.O Box 30367 – 00100 GPO
Nairobi.
Kenya.

CONTACTS

Telephone: +254-020-3317199
E-mail: info@agrifinance.org
Website: www.agrifinance.org

CORPORATION BANKERS

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

Co-operative Bank of Kenya Limited,
Co-op House Branch,
P.O Box 67881 – 00200 City Square
Nairobi.
Kenya.

KCB Bank Limited,
Moi Avenue,
P.O Box 30081 - 00100 GPO
Nairobi.
Kenya.

KEY ENTITY INFORMATION (Continued)

INDEPENDENT AUDITOR

The Corporation's auditor in accordance with the Public Audit Act, 2015 was:-

Auditor General,

Kenya National Audit Office,

P.O Box 30084 - 00100 GPO

Nairobi.

Kenya.

PRINCIPAL LEGAL ADVISERS

The Attorney General,

State Law Office,

Harambee Avenue,

P.O. Box 40112 – 00200 City Square

Nairobi, Kenya.

BUSINESS HIGHLIGHTS FIVE YEAR HISTORICAL PERFORMANCE

STATEMENT OF COMPREHENSIVE INCOME

| | 2019 KES'000 | 2018 KES'000 | 2017 KES'000 | 2016 KES'000 | 2015 KES'000 |
|----------------------------------|--------------------|--------------------|--------------------|--------------------|------------------|
| Revenues | | | | | |
| Interest Income: | | | | | |
| Interest on Loans | 778,759 | 743,184 | 932,485 | 682,010 | 602,672 |
| Interest on Short Term Deposits | 121,796 | 149,811 | 75,352 | 108,374 | 113,438 |
| Total interest income | 900,555 | 892,995 | 1,007,837 | 790,384 | 716,110 |
| Less: Interest expenses | | | | | |
| Interest on Redeemable Loans | 24,826 | 38,260 | 38,562 | 39,486 | 40,251 |
| Rebate Interest | 2,459 | 2,131 | 2,069 | 4,339 | 3,154 |
| | 27,285 | 40,391 | 40,631 | 43,825 | 43,405 |
| Net interest income | 873,270 | 852,604 | 967,206 | 746,559 | 672,705 |
| Non-Interest income | | | | | |
| Other Operating Income | 171,892 | 92,408 | 113,912 | 277,852 | 114,499 |
| Fee Income | 170,980 | 180,954 | 182,557 | 225,952 | 226,991 |
| Income from doubtful debts | 252,138 | 549,123 | 607,443 | 60,845 | 100,392 |
| Total Non-Interest income | 595,010 | 822,484 | 903,912 | 564,649 | 441,882 |
| Total Revenues | 1,468,280 | 1,675,088 | 1,871,118 | 1,311,208 | 1,114,587 |
| Operating Expenses | | | | | |
| Staff Cost | (681,735) | (752,198) | (737,510) | (698,098) | (587,097) |
| Board Expenses | (17,320) | (21,109) | (24,401) | (12,053) | (15,920) |
| Administration Costs | (299,854) | (275,038) | (233,883) | (221,077) | (212,296) |
| Depreciation & Amortization | (154,129) | (142,186) | (117,229) | (72,283) | (68,133) |
| Charge for Doubtful Debts | - | (208,786) | (486,767) | (58,083) | (24,836) |
| Total Expenses | (1,153,038) | (1,399,317) | (1,599,790) | (1,061,594) | (908,282) |

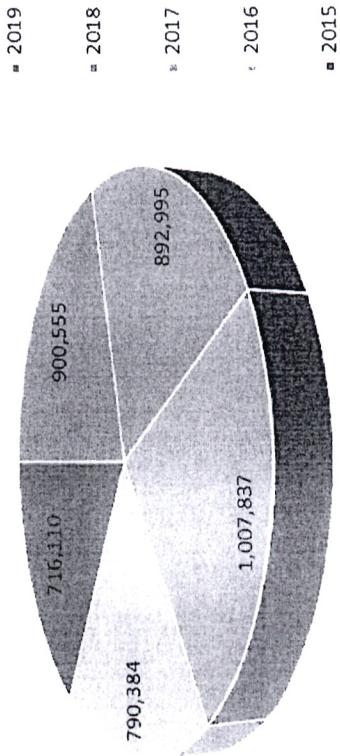
Agricultural Finance Corporation
Reports and Financial Statements
for the year ended 30th June, 2020

STATEMENT OF COMPREHENSIVE INCOME (Continued)

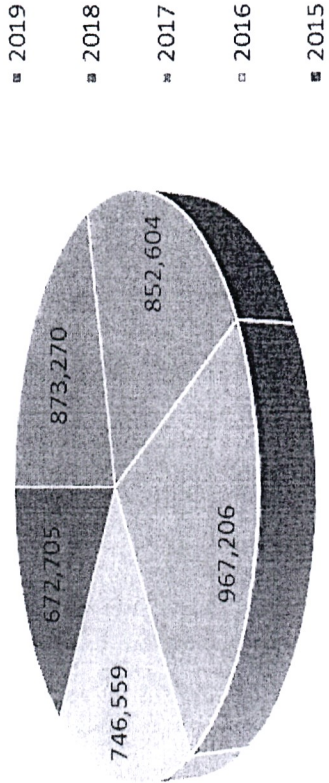
| | | | | | |
|----------------------------|----------------|----------------|----------------|----------------|----------------|
| Profit before tax | 315,242 | 275,771 | 271,328 | 249,614 | 206,305 |
| Tax for the Year | (90,785) | (73,537) | (143,721) | (67,933) | (39,156) |
| Profit for the year | 224,457 | 202,234 | 127,607 | 181,681 | 167,149 |

Agricultural Finance Corporation
 Reports and Financial Statements
 for the year ended 30th June, 2020

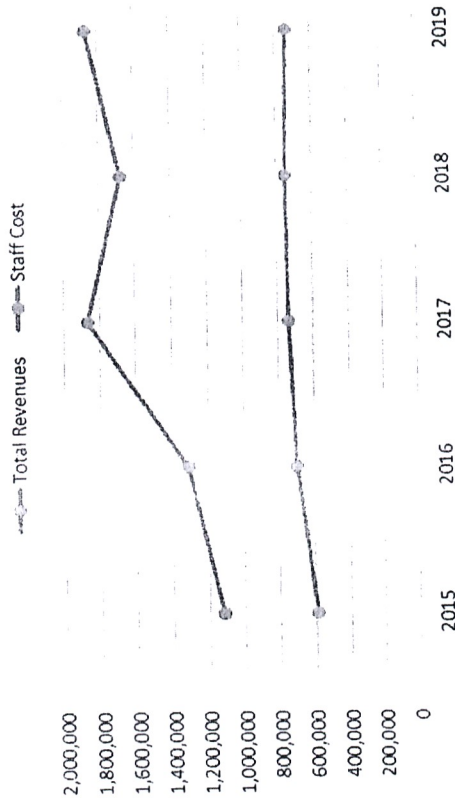
Total interest income



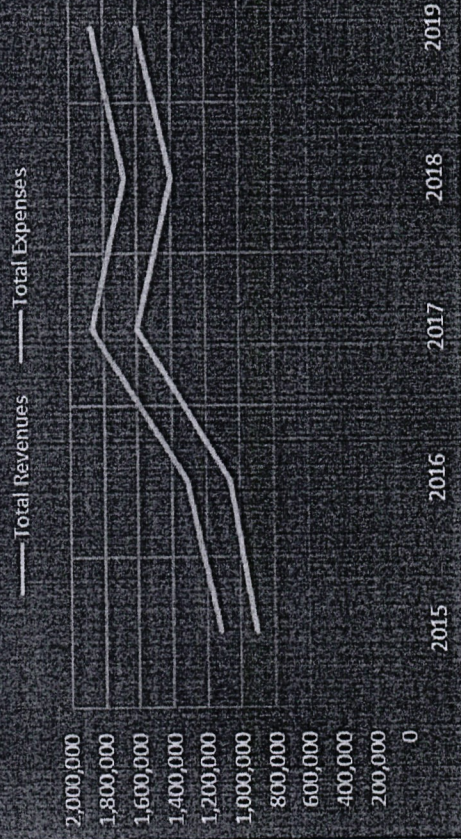
Net interest income



Total Revenue vis Staff Cost



Revenue vis Expenses



Agricultural Finance Corporation
 Reports and Financial Statements
 for the year ended 30th June, 2020

STATEMENT OF FINANCIAL POSITION

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|-------------------|-------------------|-------------------|------------------|------------------|
| ASSETS: | KES.'000 | KES.'000 | KES.'000 | KES.'000 | KES.'000 |
| Non-Current Assets | | | | | |
| Property and Equipment | 1,122,232 | 1,142,668 | 1,079,401 | 1,139,856 | 1,135,700 |
| Intangible Assets | 48,140 | 104,731 | 138,902 | 9,969 | 10,191 |
| Deferred Tax Asset | 555,557 | 588,975 | 588,975 | 632,446 | 700,379 |
| Repossessed Farm Properties | 268,041 | 259,167 | 137,995 | 137,995 | 169,053 |
| Net Loans to Customers | 6,238,828 | 5,602,718 | 4,896,537 | 4,294,811 | 4,313,848 |
| Total Non-Current Assets | 8,232,798 | 7,698,259 | 6,841,810 | 6,215,077 | 6,329,171 |
| Current Assets | | | | | |
| Cash and Bank Balances | 101,272 | 146,439 | 130,833 | 109,218 | 134,878 |
| Short Term Deposits | 1,105,958 | 1,271,502 | 1,117,576 | 712,498 | 910,743 |
| Net Short Term Loans to Customers | 1,961,846 | 1,981,527 | 1,863,487 | 2,538,219 | 2,157,467 |
| Trade and Other Receivables | 151,678 | 149,028 | 600,215 | 61,611 | 218,946 |
| Inventories | 2,695 | 3,591 | 1,937 | 1,063 | 1,542 |
| Total Current Assets | 3,323,448 | 3,552,087 | 3,714,048 | 3,422,609 | 3,423,576 |
| Total Assets | 11,556,245 | 11,250,346 | 10,555,858 | 9,637,686 | 9,752,747 |
| EQUITY AND LIABILITIES | | | | | |
| Equity and Reserves | | | | | |
| Grants | 3,623,994 | 3,426,476 | 3,597,951 | 2,856,476 | 2,856,476 |
| Government Equity Capital | 2,687,766 | 2,687,766 | 2,687,766 | 2,687,766 | 2,687,766 |
| General Reserve | 1,767,911 | 1,030,715 | 911,278 | 783,671 | 601,934 |
| Revaluation Reserve | 787,618 | 787,618 | 787,618 | 787,618 | 787,618 |
| Total Equity and Reserves | 8,867,289 | 7,932,575 | 7,984,613 | 7,115,531 | 6,933,794 |
| Non-Current Liabilities | | | | | |
| Redeemable Government Loans and Interest: | 935,070 | 1,412,034 | 1,003,258 | 1,024,310 | 970,576 |
| Agency Funds | 831,734 | 831,734 | 831,734 | 852,218 | 926,573 |

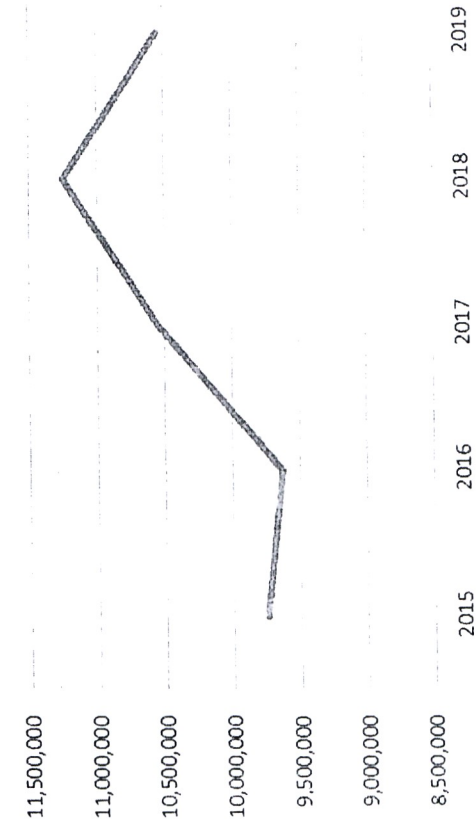
Agricultural Finance Corporation
 Reports and Financial Statements
 for the year ended 30th June, 2020

STATEMENT OF FINANCIAL POSITION (Continued)

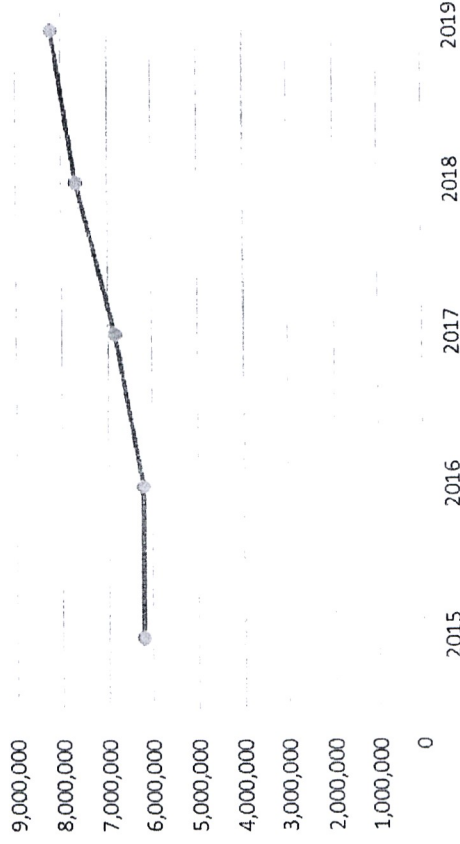
| | | | | | |
|--------------------------------------|-------------------|-------------------|-------------------|------------------|------------------|
| Total Non-Current Liabilities | 1,766,803 | 2,243,768 | 1,834,992 | 1,876,528 | 1,897,149 |
| Current Liabilities | | | | | |
| Payables | 390,589 | 503,136 | 363,918 | 389,221 | 567,419 |
| Trade and Other Payables | 135,784 | 242,851 | 201,603 | 185,918 | 283,894 |
| Current Tax Payable | 385,384 | 328,017 | 170,732 | 70,482 | 70,482 |
| Current Accounts | 10,395 | - | - | 6 | 9 |
| Total Current Liabilities | 922,152 | 1,074,003 | 736,253 | 645,627 | 921,804 |
| Total Equity and Liabilities | 11,556,245 | 11,250,346 | 10,555,858 | 9,637,686 | 9,752,747 |

Agricultural Finance Corporation
 Reports and Financial Statements
 for the year ended 30th June, 2020

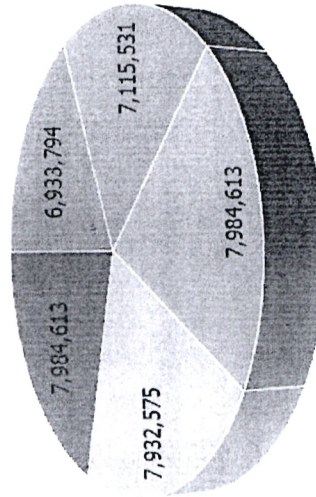
Growth in Asset Base



Total Non-Current Assets

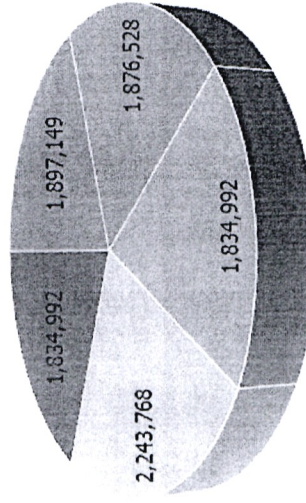


Total Equity and Reserves



■ 2015 ■ 2016 ■ 2017 ■ 2018 ■ 2019

Total Non-Current Liabilities



■ 2015 ■ 2016 ■ 2017 ■ 2018 ■ 2019

THE BOARD OF DIRECTORS



Hon. Franklin Kipng'etich Bett, EGH is a career civil servant with over thirty five years of service in the Government of Kenya. He has served in the Ministry of Finance for over 10 years rising to the position of undersecretary. He also served as The Comptroller of State House, the Permanent Secretary in the Ministry of Environment, the Kenya High Commissioner to Australia, a nominated and an elected Member of Parliament, Chair of the Parliamentary Select Committee on Agriculture, Lands and Natural Resources and a Cabinet Minister. He holds a Bachelor of Commerce (Accounting) degree from The University of Nairobi.



Hon. Amb. Ukur Yattani Kanacho, EGH has over 27-years experience in public administration, politics, diplomacy and governance in public sector since 1992. Before his appointment as Cabinet Secretary for the National Treasury & Planning, he served as the Cabinet Secretary for Labour and Social Protection since January 2018. Between the years 2006 -2007 while a Member of Parliament for North Horr constituency, he also served as an Assistant minister for science and technology. At the height of his career (March 2013-August 2017), he served as a pioneer Governor of Marsabit County. In June 2009 and October 2012, he served as Kenya's Ambassador to Austria with Accreditation to Hungary and Slovakia and Permanent Representative to the United Nations in Vienna. In this position, he aggressively pursued and advanced Kenya's foreign interests. In addition, he has held senior leadership positions at various diplomatic and international agencies such as International Atomic Energy Agency

THE BOARD OF DIRECTORS (Continued)

(IAEA), United Nations Organization on Drugs and Crimes (UNODC), United Nations Industrial Development Organization (UNIDO), Vice Chairperson of United Nations Convention Against Transnational Organized Crime (UNTOC), Vice President of Convention on Crime Prevention and Criminal Justice (CCPJ), and chair of African Group of Ambassadors among others. During the years 1992–2015, he served in different positions in Kenya's Public Administration including a District Commissioner, where he sharpened his management and administrative skills. He has Master of Arts in Public Administration and Public Policy, University of York, United Kingdom, 2005; and Bachelor of Arts in Economics, Egerton University, Kenya, 1991.



Prof. Hamadi Iddi Boga, is the Principal Secretary State Department for Agricultural Research and Acting Principal Secretary, State Department for Crop Development. He is an accomplished scholar, researcher and administrator. Before joining the Ministry he was a Professor of Microbiology at Jomo Kenyatta University of Agriculture and Technology (JKUAT) was the Acting Vice Chancellor of Taita Taveta University since 7th October 2016. He has a BSc in Botany and Zoology (First Class Honors) and MSc in Botany (Microbiology) from Kenyatta University in Kenya, PhD in Microbial Ecology and Microbiology from University of Konstanz, Germany and a Post-Doctoral Research stay at the Max Planck Institute for Terrestrial Microbiology in Marburg, Germany. He is also a Humboldt Fellow and was from 2010-2015 the Humboldt Ambassador Scientist for Kenya.

Boga has previously, held various administrative positions in JKUAT including Chairman of Botany Department (2002-2004), Director of Institute of Biotechnology Research (2005), Dean of Faculty of Science (2007) and Principal of JKUAT Taita Taveta Campus in Voi (2007 to 2012). From 2012-2016 he was the Principal of Taita Taveta University College.

THE BOARD OF DIRECTORS (Continued)

He has an extensive international and local network of scientific engagements and collaborations. He is a board member of ICPE, ICRAF among others. He was a Board Member of the World Federation of Culture Collections (www.wfcc.org)(2010-2013). He was the Secretary of the African German Network of Excellence in Science (AGNES) (2013-2016), the Secretary (2002-2006) and later Chairman (2008-2010) of the Kenya German Scholars Association (KDSA)

Prof. Boga has over 66 scientific publications in International Journals, has supervised over 14 PhD and 31 MSc students. He is an active researcher with active international collaborations. Has a strong track record of fundraising for research. He has wide experience in Management and strategic planning.

At the Ministry, he is currently steering strategic policy transformation in the sector and has passion for embracing technology, innovations and digitalization to ensure informed and evidence based decision making and planning.



Prof. Dulacha G. Barako, PhD is the Senior Advisor to the Cabinet Secretary, The National Treasury. He is also adjunct Professor of Finance at KCA University. Prior to joining the Ministry, he was an associate professor of Finance at Moi University School of Business and the head of academic division at the Kenya School of Monetary Studies.

Prof. Barako, holds a PhD from the University of Western Australia, a Master of Business Administration and a Bachelor of Commerce degree both from the University of Nairobi. He has previously held other positions including being the technical advisor to the Commission on Revenue Allocation and a principal researcher at the

THE BOARD OF DIRECTORS (Continued)

Central Bank of Kenya. He has extensive experience in research, leadership, financial management and quality assurance.



Mr. Lucas Meso is the Managing Director of the Agricultural Finance Corporation. Mr. Meso's experience spans over 20 years in senior management positions in the banking sector. He previously worked for the Central Bank of Kenya, East African Development Bank, Commercial Bank of Africa and the Co-operative Bank of Kenya. In recognition of his role in the development of Agri-business, Mr. Meso was honoured with a Presidential National Decoration Award, Moran of the Order of the

Burning Spear (MBS). He has also made outstanding contributions in economic development in the country. As the AFC team leader, Mr. Meso visualizes transforming the Corporation into a premier class, customer focused agricultural financing outfit where value to stakeholders takes precedence.

He envisages a Corporation with extensive service outreach and meaningful impact to the Kenyan agricultural economy. He holds a Master Degree in Business Administration specializing in Strategic Management from Maastricht (MSM)/Esami and a Bachelor of Science Degree in Financial Services from the University of Manchester. He is an associate of the Chartered Institute of Bankers (ACIB) UK, a fellow of the IFS School of Finance (FIFS) and a graduate of Advanced Management Program, Strathmore University in collaboration with IESE Business School, Barcelona - Spain.

THE BOARD OF DIRECTORS (Continued)



Mr. Richard Krop has extensive expertise and experience in program management, strategic partnerships and resource mobilization garnered in the past 13 years having worked with Civil Society Organizations and most recently in Government Agencies for the last 8 Years. He is the Director of Masol Properties & Investments Ltd, Bendera Contractors and Creative Kenya Communications Ltd.

He is vastly experienced in monitoring and evaluation, peace building, conflict management, education and sports development. His other areas of expertise include fundraising; grant proposal writing, developing donor fund planning and report policies and financial administration. Mr. Krop is pursuing a PhD in Entrepreneurship and Small Business Development, a holder of MBA Strategic Management and BA Commerce, Human Resources Option from the University of Nairobi. He is also a member of Institute of Human Resource Management (IHRM) and Kenya Institute of Management (KIM)



Hon. David Koros has previously worked in the Administration Department at Moi University. Between the year 2002 and 2007, he was the elected Member of Parliament for Eldoret South Constituency, being a member of the Health and Powers and Privilege Committees. He has been on the Board of Directors of East African Portland Cement. Hon. Koros holds Bachelor of Arts Degree with a Major in Political Science and a Minor in

Economics from Kanpur University, India. He has a Diploma in Public Advertising Management, Marketing Organization, Office Administration, Human Relation and Industrial Psychology and Computer Programming.

THE BOARD OF DIRECTORS (Continued)



Hon. Steven Kipkoech is a health expert and consultant. He has been in leadership position in the Bomet County. He is involved in various secondary school boards and churches. Currently he is the Director AGC Investment.

Hon. Kipkoech holds an MBA in Finance from Shahu College (Kolhapur University) and Bachelor of Commerce from Kolhapur Shivaji University (India). He also holds Diploma in Finance and

Banking from India Institute of Management.



Mrs. Rosemary Munio has extensive expertise and experience in consultancy with proficiency in strategic result based management and logical framework analysis. She has worked for over 20 years in various Non-Governmental Organizations (local and International) and for the government as a social development officer. Currently she is an independent development consultant.

She is a holder of an Executive MBA in Strategic Management from Moi University and BA in Social Works from University of Nairobi. She also holds the following Certificates of local Capacity in disaster preparedness and management, communication training program, conflict management course, gender responsive planning programming and management training, result based management.

THE BOARD OF DIRECTORS (Continued)



Mrs. Muringo Kimamo is a career Human Resource professional with a wealth of experience for over 34 years in private sector. Currently a church chairperson of the Human Resource working Committee. She has participated in developing and implementing Human Resource Strategy, performance management, industrial relations including Collective Bargaining Agreement Negotiations, safety and health programs and staff pension scheme.

She holds a Bachelor of Arts degree from University of Nairobi.



Mr. John Musyoka Munywoki is an Alternate Director representing the Principle Secretary Ministry of Agriculture, Livestock Fisheries and Irrigation, State Department for Crops Development. His experience spans over 15 years in Public Service. He has served in various capacities at the Ministry of Finance, State House, Ministry of Medical Services, Ministry of of Devolution and Planning, Ministry of Interior and Coordination of National Government, Ministry of Lands and Physical Planning and currently in the Ministry of Agriculture, Livestock Fisheries and Irrigation.

He is the Senior Chief Finance Officer heading the finance unit, assists the accounting officer to offer strategic leadership in financial matters of the Ministry, coordinates budget planning and preparation, budget execution and implementation, expenditure control and commitments, chair budget implementation committee and advises the Ministry on prudent Public Financial Management. Mr. Munywoki holds a Master of Business Administration (Finance) and a Bachelor of Commerce (Accounting option) from Kenyatta University.

THE BOARD OF DIRECTORS (Continued)



Mrs. Rose Ochanda is the Corporation Secretary and Chief Manager Legal Services. She has served in various positions in State Corporations such as the Kenya Industrial Estates Limited and the Kenya Bureau of Standards as the Company Secretary and Chief Legal Officer respectively. She has also practiced as an Advocate in private with a focus on litigation, commercial and conveyance law.

She is a holder of a Master in Business Administration Degree in Strategic Management and LLB (Hons) Degrees from the University of

MANAGEMENT TEAM



Mr. Lucas Meso is the Managing Director of the Agricultural Finance Corporation. Mr. Meso's experience spans over 20 years in senior management positions in the banking sector. He previously worked for the Central Bank of Kenya, East African Development Bank, Commercial Bank of Africa and the Co-operative Bank of Kenya. In recognition of his role in the development of Agri-business, Mr. Meso was honoured with a Presidential

National Decoration Award, Moran of the Order of the Burning Spear (MBS). He has also made outstanding contributions in economic development in the country. As the AFC team leader, Mr. Meso visualizes transforming the Corporation into a premier class, customer focused agricultural financing outfit where value to stakeholders takes precedence. He envisages a Corporation with extensive service outreach and meaningful impact to the Kenyan agricultural economy.

He holds a Master Degree in Business Administration specializing in Strategic Management from Maastricht (MSM)/Esami and a Bachelor of Science Degree in Financial Services from the University of Manchester. He is an associate of the Chartered Institute of Bankers (ACIB) UK, a fellow of the IFS School of Finance (FIFS) and a graduate of Advanced Management Program, Strathmore University in collaboration with IESE Business School, Barcelona - Spain.

MANAGEMENT TEAM (Continued)



Mrs. Rose Ochanda is the Corporation Secretary and Chief Manager Legal Services. She has served in various positions in State Corporations such as the Kenya Industrial Estates Limited and the Kenya Bureau of Standards as the Company Secretary and Chief Legal Officer respectively. She has also practiced as an Advocate in private with a focus on litigation, commercial and conveyance law.

She is a holder of a Master in Business Administration Degree in Strategic Management and LLB (Hons) Degrees from the University of Nairobi.



Mrs. Millicent Omukaga is the Head of Operations. She is a career banker, a strategist and an accountant with immense experience in institutional transformation from the financial sector. She has 16 years of management and leadership experience having served as a General Manager as well as held management positions at KWFT, Family Bank, Price Water House Coopers (PwC), Kenya Commercial Bank, Commission for Higher Education and AFRACA.

Millicent is also a Certified Microfinance Trainer of Trainers for the World Bank TDLC and has served as the Local Consultant/Trainer for Sida's private sector development ITP in East Africa.

She holds a Bachelor of Commerce degree and a Master of Business Administration (both from the University of Nairobi), she is currently pursuing her PhD in Development Studies at Erasmus University of Rotterdam. She is a Certified Public Accountant of Kenya, Certified

MANAGEMENT TEAM (Continued)

Internal Auditor and holds a postgraduate certificate in Strategy and Change Management from the Harvard Business School, USA.



CPA Tom Akeno is an accomplished finance professional with extensive public service experience spanning over 30 years having previously worked for the Ministry of Agriculture and the Kenya Tea Development Authority (KTDA). He has vast experience in financial accounting and management, corporate finance, financial systems implementation and Co-operative's management. Since joining the Corporation as an Accountant in 1995, he has risen through the ranks of Senior Accountant, Assistant Chief Accountant, Chief Accountant and currently is the General Manager Finance. He is also the Chairperson of AFC Staff Pension Schemes, Ufanisi Savings and Credit Co-operative Society and Ufa Housing Co-operative Society.

He holds a Master Degree in Business Administration specializing in Finance from the University of Nairobi and a Bachelor of Business Administration Degree in Accounting and Finance from the Kenya Methodist University. Akeno is a Certified Public Accountant and a member of good standing of the Institute of Certified Public Accountant of Kenya (ICPAK).

MANAGEMENT TEAM (Continued)



Mr. Kipkemboi Tallam is the General Manager Human Resources and Administration. He is a career Human Resource Professional having worked in the Human Resource Department of the Corporation for over 30 years rising from the position of Personnel officer, Senior Personnel Officer, Principal Personnel Officer and Human Resources Manager. He is also a Trustee of the AFC Staff Pension Scheme. He holds a B.Sc (Business Administration) Degree from the United States International University (USIU) and a Diploma in Business Administration.



Mr. Daniel Olilo is an accomplished Information Technology Specialist with over 16 years of experience in the field of ICT. He has previously worked at the Regional Centre for Mapping of Resources where he was able to implement various applications that are currently being used to serve RCMRD's member countries. Daniel is a holder of a Bachelor of Science in Computer Studies, University of Sunderland. He is currently pursuing a Master of Business Administration from Jomo Kenyatta University of Agriculture and Technology (JKUAT). Daniel's areas of interest include Systems development, open source applications, social organization applications and systems integration.

MANAGEMENT TEAM (Continued)



Mr. Jackson Echoka is an agribusiness specialist with over 30 years' experience working with farmers in the agricultural sector. He is also an experienced trainer on agriculture finance. He has successfully overseen pilot implementation of an innovative Information Technology based product targeting financial inclusiveness for smallholder farmers in the Corporation.

He holds a Master of Science degree in Agricultural and Applied Economics from the University of Nairobi in collaboration with University of Pretoria, and currently pursuing Doctor of Philosophy (PhD) in Agriculture at the University of Nairobi.



Ms. Anastasia Wachira has a wealth of experience in credit having participated in formulation of various credit policies in Barclays. She is a career Banker having worked with Barclays Bank of Kenya Ltd for nine years in various departments including Compliance, Retail Credit Unit and Credit Operations. Ms. Wachira's areas of interest include Finance, Credit and Risk analysis and the real estate market.

Ms. Wachira is a holder of a Bachelor of Commerce (Finance & Banking) from Egerton University. She is currently finalizing her Master of Commerce (MCOM) at Strathmore University.

MANAGEMENT TEAM (Continued)



Ms. Pauline Kathambana is a Communications Specialist with 20 years' experience in corporate communications, internal communications and brand strategy. She has previously worked for the East African Development Bank and the Kenya Power, and has been a consultant to organisations such as the Water and Sanitation Program (WSP) of the World Bank, the Norwegian Fund for Developing Countries (NORFUND) and the Anglo-American School, Moscow. In addition she is an accomplished facilitator and trainer.

She holds a Master of Arts degree in International Studies from the University of Nairobi and a Bachelors of Education from Kenyatta University, Kenya. She is a member of the Public Relations Society of Kenya.



Ms. Margaret Wanjiru is a procurement professional having worked in Procurement Department for over 15 years.

She holds a Bachelor of Business Administration – Entrepreneurship Option from the Kenya Methodist University, and currently finalizing her MBA – Finance at Kenyatta University.

Margaret also holds an Advance Diploma of Chartered Institute of Purchasing and Supplies, (CIPS) (UK) and a Diploma in Business Management of Kenya Institute of Management, (KIM). She is an Associate Member of both Kenya Institute of Supplies Management (KISM) and Chartered Institute of Purchasing and Supplies (CIPS) (UK).

MANAGEMENT TEAM (Continued)

She has undertaken several short courses locally on Procurement and Leadership at Kenya Institute of Supplies Management (KISM), Strathmore Business School and Kenya School of Government.



Mrs. Betty Suge has over 10 years' experience in Accounting, Auditing & Risk Management from both the Private and Public Sectors. She holds a Master of Business Administration in Finance-(Kenyatta University) and a Bachelor of Commerce in Accounting (Daystar University). She is also a Certified Public Accountant (CPAK) and is currently pursuing certification in the Certified Information Systems Auditor (CISA)

Betty is member of the Institute of Certified Public Accountants (ICPAK) as well as the Institute of Internal Auditors (IIA).

She has undertaken international courses, among them the Fraud Investigation and Prevention as well as an Anti- Corruption.

CHAIRMAN'S STATEMENT

General Overview

I am delighted to present the 2019/2020 Annual Report, which shows how we have significantly advanced the execution of our strategy. We are proud of being a successful, growing business and of the important contributions we make to the wider society. At a time of global uncertainty, we believe an important role of business is to seek solutions and create opportunities. By growing and sustaining a financially strong and responsible business over the long-term, guided by a clear purpose, we can make a positive and significant impact not just to our farmers but also to the economy and society.

Financial Performance

In 2019/20 financial year, we achieved most of the goals that we set for ourselves. We delivered growth in revenue to KES 2.3 billion (2018/19: KES 1.5 billion) and adjusted operating profit was KES 319 million (2018/19: KES 313 million). We saw meaningful progression in the amount of loans disbursed to KES 4.2 billion (2018/19: KES 3.2 billion) and our asset base slightly dropped to KES 11.4 billion (2018/19: KES 11.5 billion). We are also pleased with the solid commercial traction that we have established in our lending business model. We gained new customers and partners, secured new contracts, expanded into new territories and continued to establish a leading position in our target areas within the country.

Looking Forward

The global coronavirus outbreak continues to pose daunting challenges for policymakers in many businesses especially where the pandemic encounters weak public health systems, capacity constraints, and limited policy space to mitigate the outbreak's repercussions. A severe economic impact in the first half of 2020/21 is

CHAIRMAN'S STATEMENT (Continued)

inevitable in our business operations. Medium-term projections are clouded by uncertainty regarding the pandemic's magnitude and the speed of propagation, as well as the longer-term impact of measures to contain the outbreak, such as travel bans and social distancing. However, our business is already suffering from disruptions to various value chains, capital outflows, and tighter financing conditions. Further, the coronavirus outbreak is producing un-anticipated health spending needs and revenue losses as activities slow down. Coping with these challenges is especially difficult for our business with limited administrative capacity.

As the Chair of the Board, I would like to express my gratitude to all our stakeholders. In particular, the employees who have shown great maturity and strength during these unprecedented times given the uncertainty that accompanies the COVID-19 pandemic. The management team led by the Managing Director has steadfastly focused on the Corporation's strategy with remarkable excellence and fidelity, while the Board has continued to provide sound counsel and leadership. Above all, I would like to celebrate our farmers who have remained loyal and optimistic as they journey with us. Finally, we will not rest on our laurels; there is a lot to be done in order for us to reach our stated ambition of being the preferred financial institution for development of agriculture in Kenya.



Hon. Franklin Bett, EGH
CHAIRMAN

MANAGING DIRECTOR'S STATEMENT

Managing Director's Statement

The financial year 2019/20 started strong with promising growth prospects as envisioned in our strategic plan (2018-2022). However, the COVID-19 pandemic impacted our business operations towards the end of the third quarter where we saw reduced transaction volumes and credit demand.

The rapid geographical spread of the corona virus and the high infection rates have spread fear disrupting economic activities in the country. The Corporation's business is projected to decelerate substantially in 2020/21 due to the negative impact of the COVID-19 pandemic, the invasion of desert locusts and floods that have caused deaths, displacement of people and destruction of infrastructure across the country. Business growth projections remain highly uncertain and the outcome will hinge on how the pandemic plays out along with policy actions taken to mitigate the situation.

The hardship from the crisis would disproportionately befall the poorest and the most vulnerable households in Kenya, many of whom depend on farming, self-employment and informal wages. The agricultural sector being the greatest contributor to the country's gross domestic income will therefore be affected in many ways following the imposition of travel bans and disrupted value chains.

The Corporation remains cognizant of the impact COVID-19 pandemic has caused to personal lives, businesses and the economy as a whole. In this regard therefore, we are in the process of putting in place clear action plans to protect the health and safety of our staff and customers, enable business continuity, guard against shocks and reduce costs. The Corporation is also committed to supporting the community during these trying times and in April, 2020 donated KES 2 million to the Kenya COVID-19 Emergency Response Fund established to address the pandemic.

MANAGING DIRECTOR'S STATEMENT (Continued)

Financial Review

The Corporation's fundamentals remained strong during the 2019/20 financial year with overall positive volume increases ending the period with a total asset base of KES 11.4 billion (2018/19: KES 11.5 billion). The net loan book closed at KES 8.9 billion up from KES 8.2 billion reported in the previous period.

A pre-tax profit of KES 319 million was recorded during the year representing a slight increase of 2% compared to the previous period. The underlying trends of the income statement remained solid with total revenues growing to KES 2.3 billion (2018/19: KES 1.5 billion). Operating costs remained stable and within the approved budget limits. In the period 2019/20, the total expenditure stood at KES 1.2 billion against the budgeted amount of KES 1.3 billion resulting to a cost saving of 8%.

Non-performing loans remain a major issue from legacy accounts for which we continue to provide in line with the requirements of 'IFRS 9'. During the period under review, Expected Credit Losses (ECL) rose to KES 743 million as a result of loans waived during the year following the presidential directives of 2017 and the government's programme on strategic investments in public enterprises 'subsidy to financial institutions.

Loans worth KES 4.2 billion were disbursed compared to KES 3.2 billion disbursed in the previous year. On the other hand, a total of KES 3.493 billion was collected compared to 3.472 billion collected in the previous year representing a growth of 0.6%.

Looking Forward

The management is of the view that in the first half of 2020/21 financial year, business activities will be negatively impacted by the spread of COVID-19 and the resulting disruption of economic activities. The Corporation is identified as a key institution in the delivery of the 10% economic growth envisioned in the vision 2030

MANAGING DIRECTOR'S STATEMENT (Continued)

and accelerate attainment of the Sustainable Development Goals (SDGs). Therefore, it will continue to roll out initiatives to mitigate the impact of the COVID-19 and make agriculture a priority in the economic recovery. The food security picture also remains mixed implying that the affordability and availability of food may be of concern as both the supply and demand sides are constrained.

I take this opportunity to appreciate the invaluable efforts by the management in ensuring that the Corporation remains a key pillar in the financing of agriculture, our clients and stakeholders who have extended to us unwavering support, we are grateful to them too. Finally, I sincerely thank the Chairman and the entire Board of Directors who have provided policy guidance and direction to the management during the period under review.



Mrs. Rose Ochanda

AG. MANAGING DIRECTOR

REVIEW OF AGRICULTURAL FINANCE CORPORATION'S PERFORMANCE FOR FINANCIAL YEAR 2019/2020

Section 81 Subsection 2 (f) of the PFM Act, 2012 requires the accounting officer to include in the financial statements, a statement of the Corporation's performance against the predetermined objectives. AFC has pillars and objectives within its strategic plan for the FY 2018/2019-2022/2-23. AFC's three strategic pillars are anchored on the BIG 4 Agenda specifically on '*food and nutritional security*' and '*agro-manufacturing*'

These strategic pillars are;

- a) The Big 4 Agenda
- b) Financial inclusion and access
- c) Business Efficiency and governance

The Corporation developed its annual work plan based on the above pillars. The assessment of the Board's performance against the annual work plan is done on a quarterly basis. The Corporation achieved its annual targets set for the FY 2019/20 as indicated in the table below.

| Strategic Pillar | Objective | Initiatives | Key Performance Indicators | Activities for 2019/2020 | Achievements for 2019/2020 |
|---------------------|--|---|----------------------------|---------------------------|---|
| a) The Big 4 Agenda | Enhance Government collaboration to achieve Big Four Agenda and minimize wastage | i). Enhance Government collaboration to achieve Big Four Agenda | Number of collaborations | Establishing partnerships | -Signed an MOU with MOALF & TNT on ENABLE YOUTH Kenya. - Signed an MOU with MOALF, Agricultural sector Development Support Programme |

**REVIEW OF AGRICULTURAL FINANCE CORPORATION'S
 PERFORMANCE FOR FINANCIAL YEAR 2019/2020 (Continued)**

| Strategic Pillar | Objective | Initiatives | Key Performance Indicators | Activities for 2019/2020 | Achievements for 2019/2020 |
|-----------------------------------|---|---|--|--|--|
| b) | | ii). Partner with all credit providing government institutions/ agencies in the agricultural sector | Number of collaborations | Establishing partnerships | -Existing partnership with TNT on Risk Sharing Facility -Existing partnership with Commodities Fund |
| | | iii). Establish Big Four Agenda product lines | Number of SMEs financed | Finance SMEs | 98 SMEs financed during the period under review |
| c) Financial inclusion and access | 1. Drive financial inclusion in agriculture sector | Develop lending products for marginalized sectors in agribusiness (Youth, Women, People in ASALs and Islamic Finance) | Number of products developed | Develop Islamic and youth focused products Mobilize funds for financing the target groups | -Developed Islamic financing product and the requisite policy under the sharia compliant framework. -Engagement with BADEA in progress for a line of credit |
| | 2. Develop a wholesale lending model to de-risk and catalyze private sector agriculture financing | Develop wholesale products tailored to the private sector and target segments | Number of Wholesale products developed | Pilot two wholesale products | -Piloted Co-operative Ride-on Access Window (CRAW) and Microfinance Ride-on Window (MRAW) |

**REVIEW OF AGRICULTURAL FINANCE CORPORATION'S
 PERFORMANCE FOR FINANCIAL YEAR 2019/2020 (Continued)**

| Strategic Pillar | Objective | Initiatives | Key Performance Indicators | Activities for 2019/2020 | Achievements for 2019/2020 |
|------------------|-----------|--|----------------------------|---|--|
| | | Formulate partnerships with the private sector | No. of partnerships | Develop five partnerships with private sector | Developed partnership with:- -Kenya Crops & Dairy Market Systems (KCDMS) -UN Women (launch of WAAW product & Capacity building) -ACDI VOCA (Finance construction and establishment of AFC Marsabit branch) -FAO/EU (WAAW baseline survey and launch) -AGRA, capacity building & improving access to agricultural financing in Bura. -FSD Kenya, strategic plan implementation -TECHNOSERVE, identification and provision of markets for farmers |

**REVIEW OF AGRICULTURAL FINANCE CORPORATION'S
 PERFORMANCE FOR FINANCIAL YEAR 2019/2020 (Continued)**

| Strategic Pillar | Objective | Initiatives | Key Performance Indicators | Activities for 2019/2020 | Achievements for 2019/2020 |
|------------------------|---|--|--------------------------------|--|---|
| d) Business Efficiency | 1. Optimize the business model and accordingly enhance operational efficiencies to realize cost savings | Optimize the business model (through rebalancing loan book and enhance recoveries of NPLs) | No. of Wholesale loans | Undertake wholesale lending | We disbursed KES 168million to four Sacco's; i.e., Amica (100M), Progressive Sacco (10M), Patinas Sacco (50M), Sirikwa Sacco (8M) |
| | | | Ksh (Millions) | Recover NPLs | KES, 1.01 billion |
| | | Reduce overheads for increased efficiency | Number of audits taken | Undertake human capital audit | Rescheduled for 2020/21FY |
| | | Increase automation across the organization | Number of processes automated | Automate loan origination and approval process | Loan origination automated through FITNES and integrated to the core banking system |
| | | Enhance organizational capabilities | Number of trainings undertaken | Train staff | Trainings conducted during the period under review as follows: -128 staff on customer care -165 staff on disability mainstreaming. -6 staff on Advanced program in development finance. -10 staff on Sharpening credit assessment skills -3 staff on financial |

Agricultural Finance Corporation
 Reports and Financial Statements
 for the year ended 30th June, 2020

| | | | | | |
|---|--|--|----------------------|--|--|
| | | | | | reporting -6 staff on public relations (PRISK) -4 staff on various continuous development programs |
| Enhance Governance & management framework | | Adherence to Statutory and Legal requirements Constitution of Kenya, AFC Act, PPOA, Labour Laws, Environment etc. | % of adherence | Submit all reports | -Submitted four quarterly reports to: -The Commission on Administrative Justice. -Public Procurement Regulatory Authority -The National Treasury on financial performance |
| | | Enhanced compliance to standards e.g ISO 9001:2015 | % level of adherence | Undertake internal & external ISO 9001:2015 audits | Undertook Internal & External ISO audits on August 2019 and November 2019 respectively |

CORPORATE GOVERNANCE STATEMENT

Code of Conduct

It is of major importance to the Corporation that its leaders create a "tone at the top" and a corporate culture that promotes ethical conduct on management and employees. This is facilitated through quality corporate leadership, set by the Board of Directors and senior management. To this effect, the Corporation's resources are only to be used to conduct its business or for purposes authorized by management. Any act by a member of the Board of Directors or Management that involves theft, fraud, unauthorized disclosure, embezzlement, or misappropriation of any property is prohibited. Each member of the Board of Director or Management is responsible for the assets under their control. Each Director must follow security procedures to protect assets and must be alert to situations that could lead to loss or misuse of assets.

Board Responsibilities

The Board of Directors is responsible for providing overall policy and leadership to the Corporation and is accountable to the Government of Kenya. The Board's duties and responsibilities include:

Fiduciary responsibility

The Board of Directors has a fiduciary responsibility to care for the finances and resources of the Corporation. They must act in good faith and with a reasonable degree of care, and they must not have any conflicts of interest. That is, the interests of the Corporation must take precedence over personal interests of individual Board members.

CORPORATE GOVERNANCE STATEMENT (Continued)

Mission and Vision of the Corporation:

The Board of Directors are responsible for setting the mission of the Corporation and ensuring that all actions further that mission. The Board can change the mission, but only after careful deliberation.

Mission and Vision of the Corporation:

The Board of Directors are responsible for setting the mission of the Corporation and ensuring that all actions further that mission. The Board can change the mission, but only after careful deliberation.

Oversight

The Board of Directors does not participate in day-to-day decision-making of the Corporation; instead, they set overall policy, based on the corporate mission and vision, and they exercise an oversight function, reviewing the actions of management. The Board puts in place appropriate policies, systems and structures for the successful implementation of policy.

The Board of Directors establishes and maintains the Corporation's overall systems of planning, accounting and internal controls that facilitate prudent risk assessment and management.

The Board of Directors sets policy guidelines for management and ensures competent management of the business including the selection, supervision and remuneration of Senior Management.

CORPORATE GOVERNANCE STATEMENT (Continued)

Board Meetings

An annual plan of scheduled Board meetings is prepared each year by the Corporation Secretary, including meetings for the Board committees. The full Board meets at least four times a year and special meetings may be convened when need arises. Guidelines are in place concerning the content, presentation and delivery of papers for each Board meeting to ensure that Directors have adequate information and sufficient time for appropriate briefing ahead of each meeting.

Board Chairman and Managing Director

The roles and responsibilities of the Chairman of the Board and the Managing Director are distinct and separate. The Chairman provides overall leadership to the Board in line with principles of collective responsibility for Board decisions. The

Managing Director is responsible to the Board and takes charge of executive management and efficient running of the Corporation on a day-to-day basis.

The Board has delegated to the Managing Director authority to implement Board decisions with assistance of the Management team which the Managing Director is the team leader.

Board Performance Evaluation

The Board is responsible for ensuring that an evaluation of their performance and that of committees and individual directors are carried out each year. This involves a self-review of the Board's capacity, functionality and effectiveness of performance against its set objectives. Evaluation enables directors to suggest how Board procedures may be improved by assessing strengths and weaknesses and addressing its balance of skills, knowledge and experience. This is done by the GOK Performance contract on the KPI of the respective Board members.

CORPORATE GOVERNANCE STATEMENT (Continued)

Internal Control

The Board has collective responsibility for establishment and management of appropriate systems of internal control and for reviewing their effectiveness. The system of internal control in place has defined procedures with operational and financial controls to ensure that assets are safeguarded, transactions authorized and recorded properly, and that material errors and misstatements are either prevented or detected within a reasonable period of time.

Internal assurance is carried out by an independent Internal Audit Department that reports to the Board Audit Committee and provides confirmation that the Corporation's standards, policies and procedures as set by the Board are being complied with.

Conflict of Interest

The Corporation's policy provides that Directors, their immediate families and companies where they have interests in, only do business with the Corporation at arm's length.

Where a matter concerning the Corporation may result in a conflict of interest, the Director is obliged to declare the same and exclude themselves from any discussion or vote over the matter in question.

Board Committees

To enhance the breadth and depth of achieving Board responsibilities, the Board has delegated authority to various committees although the Board retains ultimate collective accountability for performance and corporate governance. Committees of the Board are as follows:

CORPORATE GOVERNANCE STATEMENT (Continued)

- Audit Committee
- Finance and Business Development Committee
- Credit and Risk Committee
- Human Resource Committee

These committees have formally determined terms of reference with defined scope of authority, set by the Board of Directors.

Audit Committee

The committee is mandated to raise the standards of corporate governance by reviewing the quality and effectiveness of the internal control systems, the internal and external audit functions and the quality of financial reporting. In addition to advising the Board on best practice, the committee also monitors management's compliance with relevant legislations, regulations and guidelines as well as the Corporation's laid down policies and procedures.

The committee has direct access to the Internal Audit function, the Company Secretary and the external auditors. During the year the committee received and reviewed the findings of the internal and external audit reports and management's action to address them.

Finance and Business Development Committee

The committee is mandated to review and make recommendations on the Corporation's financial and accounting policies, the Corporation's Annual Budget, quarterly and annual financial statements and the annual procurement plan. The committee also reviews the implementation of the Strategic plan and monitors the performance contract of the Corporation and the Government.

CORPORATE GOVERNANCE STATEMENT (Continued)

Human Resource Committee

The committee is mandated to formulate staff policies and procedures and ensure an adequately staffed and professionally managed human resource. The committee assists the Board in discharging its corporate governance role by reviewing staffing needs of the Corporation, appoints senior management staff, reviews training needs and undertake disciplinary measures as per the staff policies.

Credit and Risk Committee

The Committee is mandated to review the oversight of the overall lending policy of the Corporation and deliberate and consider loan applications beyond the credit discretion limits set for management. The committee also reviews and considers all issues that may materially impact the present and future quality of the Corporation's credit risk management function as well as the quality of the loan portfolio and ensure adequate provisions for doubtful debts are maintained in line with the best practice and prudential guidelines.

The committee is also responsible for overseeing the implementation of the Corporation's risk management framework to ensure that all existing and potential significant risks are identified and effectively managed.

MANAGEMENT DISCUSSION AND ANALYSIS

Operational and Financial Performance

The performance of the Corporation for the financial year ended 30th June 2020 is presented herewith in accordance with the requirement of the Public Finance Management Act (PFM) 2012, International Financial Reporting Standards and AFC Act Cap 323.

The Corporation majorly derives its income from interest on loans. During the year under review, interest income was KES 837.5M against a budget of KES 1.4B, which is a performance of 61%. The target was not achieved as most of the disbursements made during the period were development loans whose interest accruals are spread over a longer term compared to seasonal crop credit. The operating expenditure was KES 1.2B against a budget of KES 1.3B. In the financial year 2018/2019 the Corporation spent KES 998M.

Cash flows from the operations of the Corporation are detailed in the cash flow statement for the twelve months ended June 30, 2020. The Cash and cash equivalent was KES 916.9M compared to KES 1.2B in the prior year.

Compliance with regulatory requirements

During the year ended 30th June 2020, the Corporation complied with all the statutory and regulatory obligations including but not limited to: remittance of PAYE, NHIF, NSSF, VAT, HELD, Withholding tax, etc within the stipulated deadlines. The entity has an outstanding Corporation tax liability of KES. 100.3M and has a repayment plan to clear it once it's liquidity position improves.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Major risks facing the entity

a) Financial Risk Management

In the financial services sector, sustainable growth in profitability involves selectively taking and managing risks. The Corporation's goal is to earn, on behalf of the Government, an optimal, stable and sustainable rate of return for every shilling of risk it takes, while continually investing in our business to meet our future growth objectives. The risk management resources and processes are designed to identify, understand, measure and report risks that the Corporation's businesses are exposed to, and develop governance, controls, and risk management frameworks necessary to mitigate these risks as appropriate. These resources and processes are strengthened by the Corporation's culture which emphasizes transparency, accountability and responsibility for managing the risks we are exposed to.

Risk is defined as an event or events of uncertainty which can be caused by internal or external factors resulting in the possibility of losses (downside risk). However, the Corporation appreciates that some risk events may result into opportunities (upside risk) and should therefore be actively sought and exploited.

- The Corporation operates in an environment of numerous risks as shown below that may cause financial and non-financial results to differ significantly from the expected outcomes. The Corporation has an enterprise-wide approach to the identification, measurement, monitoring and management of risks faced across the country.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

b) Credit Risk

Credit risk is the potential for loss due to the Corporation's clients' failure or unwillingness to meet their contractual credit obligation. It's the single largest risk that the Corporation faces. This arises principally from the loans and advances given to our clients. The amounts presented in these financial statements are net of impairment allowances based on prudent assessment of clients' abilities to meet their contractual obligations.

To facilitate the day to day management of credit risk, there is an independent risk department based in Head Office charged with responsibility of referencing our clients before advancement of loans to assess their credit worthiness.

The Corporation writes off a loan balance as and when the Credit Committee determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral will not be sufficient to pay back the entire exposure.

c) Liquidity and Funding Risk

Liquidity risk is the potential for loss to an institution arising from either its inability to meet its obligation when they fall due or to fund increases in asset without incurring unacceptable costs or losses. Effective liquidity risk management is essential in order to maintain the confidence of the Corporations financiers & partners and to enable our core business to continue operating even under adverse liquidity circumstances. The Corporation has established the Asset and Liabilities Committee (ALCO) that is tasked with the responsibility of ensuring that all foreseeable funding and commitments are met when they fall due and that the Corporation will not encounter difficulties in meeting its obligations or financial liabilities as they fall due.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

d) Market Risk

Market risk is the risk that the values of assets and liabilities or revenues will be adversely affected by changes in market conditions or market movements. The objective of market risk management programs is to manage and control market risk exposures in order to optimize return on risk taken while maintaining a good market profile as a provider of agricultural financial products and services.

e) Capital Management

The Corporation's objectives when managing capital are:

- To safeguard the Corporation's ability to continue as a going concern in order to provide acceptable returns to the shareholder and benefits for other stakeholders while maintaining an optimal capital structure.
- To comply with capital requirements set by regulators within the markets that the Corporation operates in.
- To maintain a strong capital base to support continued business development.
- To create an acceptable buffer catering for unexpected losses that the Corporation may incur in adverse market scenarios during the course of its business.
- To manage its capital structure and make adjustments to it according to changes in economic conditions and the risk characteristics of its activities.

f) Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Corporation's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

standards of corporate behavior. Operational risks arise from all of the Corporation's operations and are faced by all business units.

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

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Corporation standards for the management of operational risk in the following areas:-

- Requirements for appropriate segregation of duties, including the independent authorization of transactions.
- Requirements for the reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements.
- Documentation of controls and procedures.
- Requirements for the yearly assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified.
- Requirements for the reporting of operational losses and proposed remedial action.
- Development of contingency plans.
- Training and professional development.
- Ethical and business standards.
- Risk mitigation, including insurance where this is effective.

Compliance with Corporation's standards is supported by a program of regular reviews undertaken by both the Internal Audit and Compliance & Control Section.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the senior management of the Corporation and the Board Audit Committee.

g) Strategic Risk

The Corporation defines strategic risk as the potential for loss arising from ineffective business strategies, improper implementation of those strategies, sudden unexpected changes in its operating environments, or from lack of adequate responsiveness to changes in those specific business environments. The Corporation faces several strategic risks from its environment which include:

- Macro-economic changes;
- Competition from the financial industry, and organisations providing similar services;
- Technological changes;
- Key legislative and regulatory changes;
- Major political events; and
- Human capital or social/demographic trends and changes

The institution carries out regular business performance reviews periodically, but at a minimum on a quarterly basis against. It performs regular industry strengths, weaknesses, opportunities and threats (SWOT); and peer analysis reviews and reports those. The reviews are regularly reported to the Board of Directors for information and advice, or action where significant deviations occur. The reports include identification of key risks being faced, and how they are being managed to be within approved appetite.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

h) Reputational Risk

Current or potential loss to earnings and/or capital arising from damage or deterioration of the Corporation's reputation or standing due to negative perception of its image or its business practices amongst customers, counterparties, shareholders, regulatory authorities and other stakeholders, whether true or not. When all other risks are managed well, this risk is substantially minimized.

Senior management and the Board of Directors receive periodic reports on the assessment of the Corporation's reputational risk exposures that arise from its business (including sales, service and legal matters) activities so as to form a view on associated risks and implement corrective actions.

i) Compliance & Legal Risk

The Corporation defines Compliance or Regulatory Risk as the potential of loss arising from non-compliance with laws, rules, regulations, obligatory practices/standards, contractual agreements, or other legal requirements including the effectiveness of preventing and handling litigation. It is not actively or deliberately pursued in the expectation of a profit or return, but occurs in the normal course of our business operations. The Corporation meets high standards of compliance with legal, regulatory and policy requirements in all business dealings and transactions.

j) Information & Communication Technology Risk

ICT Risk is the business risk associated with the use, ownership, operation, involvement, influence and adoption of ICT within an enterprise. It consists of ICT-related events and conditions that could potentially impact the business. It can occur

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

with both uncertain frequency and magnitude, and it creates challenges in meeting strategic goals and objectives.

Policies, processes and technology have been put in place to mitigate ICT risks. These are revised regularly to bring them up-to-date with the evolving threat landscape. Information Security incidents are identified, tracked and reported.

CORPORATE SOCIAL RESPONSIBILITY/SUSTAINABILITY REPORTING

1. Sustainability Strategy and Profile

AFC has taken a conscious and strategic approach in refining and realigning its deployment of credit and technical support in a manner that directly contributes to sustainable growth and development, while at the same time enhancing resilience across communities. The Corporation's guiding principle has been to approach sustainable development not as a singular, distinct pursuit, but as a critical value mainstreamed at the core of our business.

Principally, AFC now has a targeted approach that positions its resources to play a catalytic role and stimulate additional investments into the Agricultural sector. This is being achieved through instruments and collaboration that leverage private sector capital and development partners support. In this manner, AFC is driving the cost of Agricultural Credit even further down, thus making the sector more attractive, deepening inclusion of previously marginalized segments of the society and assuring environmental protection.

While our traditional approach has contributed immensely towards food and nutritional security and in addressing poverty, the Corporation noticed that mere continuation of those strategies would not have sufficed to achieve deepened sustainable development. In the length and breadth of the landscape across which the Corporation operates, economic and social progress remains uneven, and the Agricultural sector remains susceptible to shocks hence the fragility currently characteristic of the sector.

The new approach in addition to strengthening the ecosystems where credit has already been deployed, is opening new frontiers, where value chains have been mapped from end to end.

CORPORATE SOCIAL RESPONSIBILITY/SUSTAINABILITY REPORTING (Continued)

2. Environmental Performance

The Corporation is mandated under the AFC Act (Cap 323, Laws of Kenya) to assist in the development of agriculture which is one of the anthropogenic activities that cause greenhouse gas (GHG) emissions that trap heat in the atmosphere resulting to global warming. These activities include; enteric fermentation from livestock, use of fertilizers, burning of farm residues and poor land cultivation practices. Similarly, conversion of wetlands to crop lands, deforestation and forest degradation significantly contribute to increased frequency and intensity of extreme weather conditions.

The Corporation's response to reducing environmental degradation has focused on adaptation and mitigation through financing and capacity building in the various programs that meet certain criteria as specified under the climate change Act of 2016. These include; water conservation, training and financing of drought tolerant crops, irrigation systems, eco-friendly horticulture, green house financing, organic farming and pasture based livestock management systems and ranches. Through these projects, the Corporation seeks to prevent or slow the increase of atmospheric GHG concentrations by limiting future emissions and enhancing potential sinks for GHG. In addition, the Corporation has banned the use of single use plastics in its offices and branches in line with Government guidelines.

In the last three financial years, AFC has continued to play a critical role in the realization of the climate change for low carbon and climate resilient development as highlighted below. The Corporation will continue allocating resources within the framework of the approved budgets to support the above projects.

CORPORATE SOCIAL RESPONSIBILITY/SUSTAINABILITY REPORTING (Continued)

| Financial Year | 2017/2018 | 2018/2019 | 2019/2020 | Source |
|--|------------------|------------------|------------------|-------------------|
| Actual Expenditure (KES'000') | 378,101 | 600,737 | 788,818 | Revolving Fund |

3. Employee Welfare

Our employees remain central to the delivery of our strategy and a core pillar of our success. Our intent is to provide the best employee value proposition in the market, creating a world class workplace that rewards performance, innovation and ethical conduct. We have already embarked on several culture transformation initiatives aimed at inculcating a new culture and values in our workplace. Key in this regard is our emphasis on a digital workplace as a precursor for delivering digital services. The prospects for our employees, including career progression, training and development, competitive remuneration, world class workplace and meaningful work is impeccable. Through them, we will create value for our customers and stakeholders, in line with our corporate purpose "to offer innovative, affordable and diverse financial products and services through the adoption of modern technology and networks aimed at transforming the livelihood of the farming community in Kenya, in pursuit of food security and sustainable Agricultural Development".

(i) Recruitment and Selection:-The Corporation is an equal opportunity employer and therefore appointments are not prejudiced against race, colour, language, nationality, pregnancy, marital status, HIV status, ethnic background, gender, age, disability and religion. The Corporation's recruitment policies and procedures are aimed at attracting the best available talent and to select solely on the basis of the Candidate's

CORPORATE SOCIAL RESPONSIBILITY/SUSTAINABILITY REPORTING (Continued)

suitability to meet the requirements of the position. The Corporation endeavours to comply with the one third gender representation policy during the recruitment process.

- (ii) Performance Management System:-**The Corporation recognizes that in order to achieve organizational effectiveness and to effectively deliver on its mandate, it must pursue a management policy that enables it to establish a high performance culture in its employees. The Corporation has implemented a Performance Management system which ensures that employees' performance supports the corporation's strategic aims. Performance Contracts are signed yearly and a robust monitoring and Evaluation System put in place to track performance. In addition, the Corporation has implemented a performance reward system to recognize and reinforce high performance. The reward system also addresses any concerns on underperformance.
- (iii) Training and Development:-**The Corporation recognizes staff training and development as a strategic investment. It is therefore the policy of the Corporation to train and develop individual employees and teams to equip them with the skills, knowledge and competences that they require for undertaking current and future tasks. The intention is to prepare employees to keep pace with the changing business environment. To this end, the Corporation on a continuous basis identifies skills gaps and puts in place interventions to improve the skills.

CORPORATE SOCIAL RESPONSIBILITY/SUSTAINABILITY REPORTING (Continued)

- (iv) Health and Safety:-**It is the moral and legal responsibility of the Corporation to recognize and commit itself to provide and maintain safe and healthy working conditions, equipment, and systems of work for all employees. Employees are required to take reasonable care for the health and safety of themselves and of other people who may be affected by their acts or omissions, and to co-operate in ensuring that the Corporation's policy is observed. In pursuit of these obligations, every effort has been made to ensure that the health, safety and welfare of all employees, clients and visitors is adequately addressed in compliance with the Occupational Safety and Health Act, 2007 (OSHA).

4. Market Place Practices

Development Financial Institutions perform intermediation functions that are critical to the real economy. In particular, they correct the asymmetry of information between investors and borrowers and channel savings into investments. These functions facilitate and contribute to the growth of the economy. Linkages between DFIs through inter-bank markets and payment systems are vital to the functioning of financial markets. The loss of confidence in one major financial institution is a financial crisis that can snowball into a loss of confidence in the entire market because the inability of one DFI to meet its obligations can drive other, otherwise healthy, DFIs into insolvency. The risks then become systemic, endangering the whole financial sector. If the financial sector is not working well, then the entire market economy is not working well. For this reason, the Government imposes significant regulation and oversight to ensure the smooth functioning of the financial sector and when problems arise, they must act quickly to avert systemic crises. To fulfil its mandate, the AFC Board of Directors, Management and Staff are committed

CORPORATE SOCIAL RESPONSIBILITY/SUSTAINABILITY REPORTING (Continued)

to ensure compliance to the applicable laws, regulatory requirements and its core values of striving to put the customers' needs first and adhering to the moral and ethical principles to ensure efficiency in service delivery.

AFC strategically plans for, and manages all interactions with third party persons that supply goods and/or services to the organization in order to maximize the value of those interactions. In practice, this entails creating closer, more collaborative relationships with key suppliers in order to uncover and realize new value and reduce risk of failure. From time to time, the Corporation invites its suppliers for summits/trainings, which bring together all strategic suppliers together to share, provide feedback on its strategic supplier relationship management programs, and solicit feedback and suggestions from key suppliers. Operational business reviews are also carried out, where individuals responsible for day-to-day management of the relationship review progress on joint initiatives, operational performance, and risks. The Corporation procures services and goods from different entities and honors the payments as soon as the obligations are met by the suppliers. The Corporation also allocates sufficient resources to meet these obligations on the due dates.

Ethical marketing is a key component of our strategy. The processes by which AFC markets its products and services focuses not only on how its products benefit customers, but also how they benefit socially responsible or environmental causes. In addition to the Corporation's commitment to different stakeholders beyond the business customers, AFC takes moral actions that encourage a positive impact on all of the Corporation's stakeholders from the customers and the employees to the suppliers, shareholders, and communities in which the Corporation operates.

CORPORATE SOCIAL RESPONSIBILITY/SUSTAINABILITY REPORTING (Continued)

Consumer protection practices safeguard farmers and the public against unfair practices. Consumer protection measures established by the Corporation are intended to prevent the Institution from engaging in malpractices or specified unfair practices in order to gain an advantage over competitors or to mislead consumers. The measures may also provide additional protection for the general public which may be impacted by a product (or its production) even when they are not the direct purchaser or consumer of that product.

The Corporation is committed to ensuring that equal opportunity is given to customers across the country to access its products and services. In this regard, due effort has been made to design bespoke product delivery channels that take into consideration those segments of the population that have previously been marginalized. Additionally, AFC ensures that no bias exists in service delivery, ensuring that this is done efficiently across all value chains, ages and gender. The Corporation does not endorse or give preferential support to third party products or services.

AFC's consumer protection framework in the financial service industry is evolving as products become more complex and a greater number of people rely on financial services. The Corporation's framework includes three complementary aspects. First, it includes laws and regulations governing relations between service providers and users and ensuring fairness, transparency and recourse rights. Second, it requires an effective enforcement mechanism including dispute resolution. Third, it includes promotion of financial literacy and capability by helping users of financial services to acquire the necessary knowledge and skills to manage their finances. In this regard, the Corporation reports, on a quarterly basis, to the Commission on Administrative

CORPORATE SOCIAL RESPONSIBILITY/SUSTAINABILITY REPORTING (Continued)

Justice, Office of the Ombudsman, as pertains to any and all public complaints and access to information requests in connection with AFC's service delivery.

5. Community Engagements Corporate Social Responsibility

In the Financial Year 2019/2020, the Corporation carried out various Corporate Social Responsibility activities in its six Regional Offices. During the year, the Corporation committed Kshs. 3,219,000 towards the activities. These activities are within the thematic areas as per the corporation's policy and in line with Sustainable Development Goals (SDGs). These are; Health, Water and sanitation, Education, Environment and Agriculture. With reference to the above themes, the Corporation presents its stance and activities undertaken in the 2019/20 FY as follows;

| PILLAR | PROJECT LOCATION/REGION | PROJECT DETAILS | IMPACT/ BENEFICIARIES | AMOUNT KES 000' |
|-----------------------------|---|--|------------------------------|------------------------|
| Education | a) Eldoro Primary, Taita Taveta County, | Construction of a classroom | 650 children | 1,000 |
| | b) Seng'enge Primary School, Kajwang location, Ndhiwa Sub County, Homa- Bay County | Purchase of 70 desks | 317 children | 250 |
| | c) Mwakala Primary School Bamba Ward, Ganze Constituency, Kilifi County | 5 bookshelves, 15 chairs, 7 tables, mathematical sets, quality pencils, exercise books, rulers | 700 children | 250 |
| Water and Sanitation | a) Kerenget Primary School, Tartar Sub – County, West Pokot County, North Rift Region | Installation of two 10,000 litre water tanks, 60 feet water well and electric water pump | 700 children | 250 |

**CORPORATE SOCIAL RESPONSIBILITY/SUSTAINABILITY
 REPORTING (Continued)**

| | | | | |
|---------------------|--|--|--------------------------|--------------|
| | b) Makimei Children's Home, Kikuyu, Gitaru, Kiambu County, Eastern Region | Installation of 10,000 litre water tank | 78 children | 250 |
| | c) Kabarnet School for the Deaf and Blind Children, Kabarnet Municipality, Baringo County, Central Rift Region | Installation of two 10,000 litre water tanks | 75 children | 250 |
| | d) Mwaroko Primary School, Taita sub-County in Taita Taveta County, Coast Region | Installation of two water tanks totaling 10,500 litres. | 350 children | 150 |
| Health | Samburu Handicap and Rehabilitation Centre, Maralal town, Samburu County | 15 arm and elbow, crutches, 3 wheel chairs, one toilet seat, 1 walking frame, 7 desks and 7 chairs | 152 children | 250 |
| | Total | | 3022 children | |
| Environment | Eco Green Kenya, Budalagi, Busia County | Purchase of tree seedlings | 10 acres of land planted | 275 |
| | Greening Kenya, Kigumo Constituency, Murang'a County | Purchase of fruit tree seedlings | 8 acres of land planted | 250 |
| TOTAL AMOUNT | | | | 3,175 |

CORPORATE SOCIAL RESPONSIBILITY/SUSTAINABILITY REPORTING (Continued)

Mount Kenya Region

The Corporation through Mt. Kenya Region donated wheel chairs, crutches, desks, iron sheets and food stuff to Samburu Handicap Education and Rehabilitation Centre in Samburu County on 11th June 2020. The Centre facilitates children with special needs to be able to access basic needs like food, shelter, counselling and schooling.



This activity is in line with the Corporate Social Responsibility pillars and sustainable development goals (SDGs 3 and 4) to ensure healthy lives, promote well-being, lifelong learning opportunities for all and equitable quality education.

Headmaster, Senteu Siloma (left) and Director, Grace Seneiya receive the items from Regional Manager, Mt. Kenya, Felix Kisengo. Looking are AFC staff from Mt. Kenya Region.

CORPORATE SOCIAL RESPONSIBILITY/SUSTAINABILITY REPORTING (Continued)

North Rift Region



AFC North Rift Regional Manager Lilian Kimulany washes her hands during the handing over ceremony

The Corporation, through its North Rift Region, handed over a water project comprising of a 60 feet water well, electric water pump and water tanks to Keringet Primary school for the hearing impaired in Tartar, West Pokot County.

The school which was established by the Ministry of Education in 2009 currently supports 96 children who are hearing impaired from ECD to class eight.

CORPORATE SOCIAL RESPONSIBILITY/SUSTAINABILITY REPORTING (Continued)

The school's main challenge has been water unavailability since there is no single source of water within the school premises making the pupils to walk about 2 kms to fetch water from a nearby seasonal stream. Through the AFC CSR water project, the challenge is now history as expressed by the school management through their appreciation letter. The water project will be handy during this period of the pandemic of COVID-19 as pupils will be expected to wash hands once learning resumes.

Coast Region



Branch Manager, Kilifi, Samuel Ochieng (far left) hands over the items to Head Teacher of Mnango Wa Dola Mohammed Jila. Looking on are AFC staff members, school management team among other guests

The Corporation through its Kilifi Branch visited Mnango Wa Dola Primary School located in Bamba Ward, Ganze Sub County, Kilifi County and donated 5 bookshelves, 15 chairs, and 7 tables as well as mathematical sets, quality pencils, exercise books, rulers, tea flasks and umbrellas

CORPORATE SOCIAL RESPONSIBILITY/SUSTAINABILITY REPORTING (Continued)

to award the best performing pupils and standard eight candidates.

This was aimed at improving the learning environment, improving the school performance and eradicating school dropout as well as encouraging teachers to stay in school instead of asking for transfers due to poor conditions in the area. The school borders Kilifi and Kwale Counties with a total of 700 pupils and 11 teachers.

Eldoro Primary School

The Corporation supported Eldoro Primary School, Taita Taveta County, through construction of a classroom. The school is among the many institutions that benefited from AFC's squatter resettlement programme which saw it get its title deed.



CORPORATE SOCIAL RESPONSIBILITY/SUSTAINABILITY REPORTING (Continued)

Mwaroko Primary School

The Corporation purchased and installed two water tanks at a cost of Kshs. 150,000.00. This assistance has helped the school in increasing water storage capacity which ensures that water shortage during the dry season is now a thing of the past.

Mwaroko primary school is a public school located in the low and dry lands of Taita sub-County in Taita Taveta County. The area experiences serious water shortages during the dry season.

Central Rift Region



Regional Manager, Central Rift, Irene Koonyo (in glasses) hands over water tanks to the School Principal Salome Binot. Looking on are Board Members and AFC staff.

CORPORATE SOCIAL RESPONSIBILITY/SUSTAINABILITY REPORTING (Continued)

The Corporation through Central Rift Region donated 2 tanks of 10,000 litres, base construction and food stuff to Kabarnet School for the Deaf-Blind in Baringo County. The donation will go a long way in providing water for irrigating their vegetable garden, and supporting their dairy and poultry projects. The school has a capacity of 75 children living with disability.

Eastern Region



AFC Eastern regional office and Kiambu branch staff pose for a photo with Makimei Children's home staff and children

CORPORATE SOCIAL RESPONSIBILITY/SUSTAINABILITY REPORTING (Continued)

As a commitment to drive positive change in the community, AFC through Eastern Regional Office and Kiambu branch, donated and installed 2 water tanks of 10,000 litres each to Makimei Children's home Gitaru, Kiambu County. In addition, AFC donated double decker beds, mattresses and baby cots.

The home, which was registered in 2006, supports children from the local community whose parents had succumbed to the HIV/ AIDS scourge and victims of post-election violence. It currently hosts 78 children ranging from 2 weeks to 28 years.

Nyanza/Western Region



The Corporation donated 70 desks to Sing'enge Primary School in Homa Bay County. The school, with a capacity of 317 pupils, undergoes various challenges including dusty and muddy Early Childhood Development (ECD) classrooms, water shortage and inadequate desks.

CORPORATE SOCIAL RESPONSIBILITY/SUSTAINABILITY REPORTING (Continued)

Tree Planting Exercise in Busia County



Tree planting

The Corporation participated in a tree planting exercise which took place at Munjogo Hill, Port Victoria area of Busia County. The exercise was in partnership with Eco Green where 4000 tree seedlings were planted.

The objective is to sustain use of terrestrial ecosystems, sustainably manage forests, proactively protect and preserve the environment to restore combat desertification, halt and reverse land degradation and halt biodiversity loss.

CORPORATE SOCIAL RESPONSIBILITY/SUSTAINABILITY REPORTING (Continued)

So far the Corporation has planted trees in 7 counties, Murang'a, Kericho, Kitui, Kakamega, Mombasa, Eldoret and Nyeri Counties. The drive is to help the government attain 10% forest cover.

Eco Green is an environmental and community farmer based organization engaged in bamboo farming and environmental conservation.

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended June 30, 2020, in accordance with the section 194 of the Public Finance Management (PFM) Act, 2012 which disclose the state of affairs of the Corporation.

Principal activities

The Corporation is primarily charged with the responsibility of providing credit facilities for the sole purpose of developing agriculture.

Results

The results of the entity for the year ended June 30, 2020 are set out from page 1 to page 51.

Dividends

As per the current dividend policy in place, the Corporation will only consider any dividends payout, after the government loans are fully repaid and the Corporations' liquidity is healthy. The Directors therefore do not propose to pay any dividends during the year under review. The retained earnings will be utilized to repay Government loans and the surplus will be reinvested in normal corporate business.

Directors

The members of the Board of directors who served during the year are shown on page 3. All the directors were appointed in accordance with respective section of the constitution of Kenya.

REPORT OF THE DIRECTORS (Continued)

Auditors

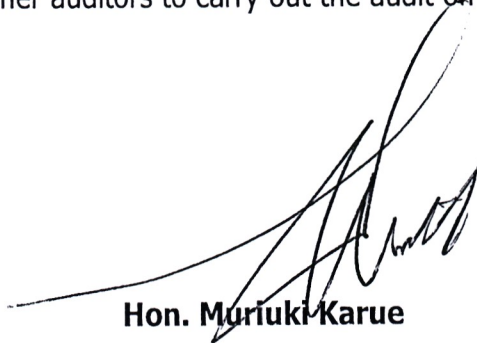
The Auditor General is responsible for the statutory audit of the Corporation in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

By Order of the Board



Mrs. Rose Ochanda
Corporation Secretary
Nairobi

Date:



Hon. Muriuki Karue
Chair – Finance & Business
Development Committee

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and (section 14 of the State Corporations Act, - 446) and the Agricultural Finance Corporation Act Cap 323 require the Directors to prepare financial statements in respect of that Corporation, which give a true and fair view of the state of affairs of the Corporation at the end of the financial year and the operating results of the Corporation for that year. The Directors are also required to ensure that the Corporation keeps proper accounting records which disclose with reasonable accuracy the financial position of the Corporation. The Directors are also responsible for safeguarding the assets of the Corporation.

The Directors are responsible for the preparation and presentation of the Corporation's financial statements, which give a true and fair view of the state of affairs of the Corporation for and as at the end of the financial year ended on June 30, 2020. This responsibility includes:

- (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity;
- (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 entity;
- (v) selecting and applying appropriate accounting policies; and
- (vi) making accounting estimates that are reasonable in the circumstances.


STATEMENT OF DIRECTORS' RESPONSIBILITIES (Continued)

The Directors accept responsibility for the Corporation's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and Agricultural Finance Corporation Act Cap 323. The Directors are of the opinion that the Corporation's financial statements give a true and fair view of the state of Corporation's transactions during the financial year ended June 30, 2020, and of the Corporation's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Corporation, which have been relied upon in the preparation of the Corporation's financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

The Corporation's financial statements were approved by the Board on 24th September, 2020 and signed on its behalf by:



Hon. Franklin Bett
Chairman



Mrs. Rose Ochanda
Ag. Managing Director



Hon. Muriuki Karue
Board Member

REPORT OF THE INDEPENDENT AUDITORS ON THE AGRICULTURAL FINANCE CORPORATION

We have audited the accompanying financial statements of Agricultural Finance Corporation for the year ended June 30, 2020, which comprise: (i) a statement of comprehensive income; (ii) a statement of financial position as at June 30, 2020; (iii) a statement of cash flows; (iv) a summary of significant accounting policies; and (v) other explanatory notes.

Management's responsibility for the financial statements

The Directors are responsible for the preparation and fair presentation of the financial statements which give a true and fair view of the entity's state of affairs and its operating results in accordance with International Financial Reporting Standards, and for such internal control as the Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

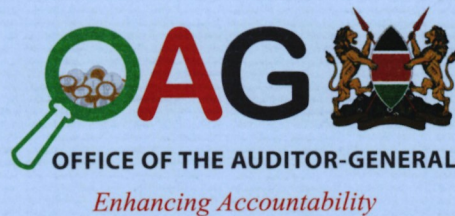
Auditors' responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit 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 auditors' 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

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Agricultural Finance Corporation set out on pages 1 to 49, which comprise the statement of financial position as at 30 June, 2020, and the statement of comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Agricultural Finance Corporation as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and does not comply with the Agricultural Finance Act, Cap 323 of the Laws of Kenya and the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1.0 Property and Equipment

1.1 Land Without Ownership Documents

The statement of financial position reflects a balance of Kshs.1,099,588,000 under property and equipment which, as previously reported, includes twenty-nine (29) developed plots measuring a total of 5.3324 hectares valued at Kshs.191,627,798 and seven undeveloped plots measuring a total of 1.5383 hectares with no ownership documents. Further, the value of land and buildings with a net book value of Kshs.886,254,000 excludes unvalued parcels of land located in Busia, Nanyuki and Kerugoya whose ownership is in dispute. Although Management explained that it

continued with the pursuit of the ownership documents through the Ministry of Lands and the National Land Commission, the documents had not been obtained as at the time of audit.

In addition, the Corporation's parcel of land known as Kisumu Municipality/Block 6/391 measuring 0.4299 hectares which was allocated on a 99 years lease term by the Government with effect from 1 January, 1993 as per the certificate of lease dated 3 January, 1999, has been repossessed by the Kenya Railways Corporation (KRC) through the Commissioner of Lands who claim that the land was illegally allocated to the Agricultural Finance Corporation (AFC). An attempt to sell the plot of land failed as title document is said to have passed to KRC under unclear circumstances.

1.2 Undervaluation of Land

The statement of financial position reflects a balance of Kshs.1,099,588,000 under property and equipment which, as disclosed in Note 8(a) to the financial statements, includes an amount of Kshs.886,254,000 being the net book value of land and buildings. The latter balance includes an amount of Kshs.526,550 that was used in acquisition of six parcels of land in Kimilili, Molo, Bomet, Bungoma, Chogoria and Kisumu Municipality. The six parcels of land have not been revalued contrary to the International Accounting Standard No. 16 which requires sufficient regularity in revaluation of property, plant and equipment to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the end of reporting period.

1.3 Property with Expired Lease

Included in the land and buildings net book value balance of Kshs.886,254,000 is a parcel of land Nakuru Municipality block 8/22 situated at the junction of Argwings Kodhek Road and Sungura Avenue in the larger industrial area within Nakuru municipality. Review of lease documents provided indicated that the residential plot lease expired in 2015 and has not been renewed. An attempt to sell of the property through an auction during the year was not successful.

Under the circumstances, it was not possible to confirm whether the property and equipment balance of Kshs.1,099,588,000 as at 30 June, 2020 was fairly stated.

2.0 Tax Matters

2.1 Unexplained Reversal of Current Tax Payable

The statement of financial position reflects a balance of Kshs.100,312,000 under current tax payable which, as disclosed in Note 21(c) to the financial statements, is net of a reversal of tax liability of Kshs.312,924,000 during the year. The reversal was effected on the advice by a tax consultant but the basis for the tax reversal was not disclosed. It is also not clear whether the Corporation had consulted with the Kenya Revenue Authority before reversing a liability that it had already recognized.

Further, the current tax payable of Kshs.100,312,000 includes an amount of Kshs.28,484,000 in respect of corporate tax attributed to rental income tax. However, no analysis was provided to support the rental tax payable balance.

Consequently, the accuracy and completeness of the current tax payable balance of Kshs.100,312,000 as at 30 June, 2020 could not be confirmed.

2.2 Unexplained Reversal of Deferred Tax Asset

The statement of financial position reflects a balance of Kshs.3,563,000 under deferred tax asset which, as disclosed in Note 10 to the financial statements, is net of a deferred tax reversal of Kshs.551,994,000 which was debited to general reserve during the year. However, as previously reported, supporting documents for the deferred tax reversal were not provided for audit verification.

Consequently, the accuracy and completeness of the deferred tax asset of Kshs.3,563,000 as at 30 June, 2020 could not be confirmed.

3.0 Repossessed Farm Properties

As disclosed in Note 11 to the financial statements, the statement of financial position reflects a balance of Kshs.267,794,000 under repossessed farm properties as at 30 June, 2020. Included in the balance are ten parcels of land spread in the four Counties of Homa Bay, Migori, Nyamira and Nandi. However, the ownership of the properties, or the loan balances against which they were repossessed could not be established.

Further, the repossessed farm properties balance of Kshs.267,794,000 includes a property with an outstanding amount of Kshs.6,092,187 for which the title deed is still in the name of the clients contrary to Section 9.8 of the Loan Policy which provides that upon acquisition of property by the Corporation, the Legal Department will arrange for the transfer of the property to the Corporation

Under the circumstances, the accuracy, ownership and completeness of the repossessed farm properties balance of Kshs.267,794,000 could not be confirmed.

4.0 Loans Management

4.1 Loans Write off Without Board Approval

The statement of financial position reflects an amount of Kshs.7,748,755,000 in respect of net loans after provision for bad and doubtful loans. Information available indicates that in the financial year 2017/2018, the Board and The National Treasury granted approval for write off totalling Kshs.2,164,311,134. The amount related to principal and accumulated interests for specific loans and affected 5,668 identified cases that had been taken between 2013 and 2016 calendar years. The loans were spread in six counties and

also included unsecured group loans in all counties and bad and doubtful loans in all counties.

The first tranche towards the write off of the amounts was received from The National Treasury in the financial year 2017/2018 and amounted to Kshs.918,228,335. During the year under review, the Corporation received an amount of Kshs.1,200,000,000 from The National Treasury towards the settlement of the remaining balance. The amount was received in two instalments of Kshs.600,000,000 each on 18 October, 2019 and 27 December, 2019 respectively.

The amount of Kshs.1,200,000,000 was recorded in the books of the Corporation under grants – GOK Project Subsidy Funds 2016, but was used to settle loan balances that had not been initially approved by the Board. Although all the 5668 cases that had been identified by the Board and had their interest charges suspended from the date they were identified, the Corporation continued to charge them interest in a different memorandum but the interest was not accrued in the books of the Corporation.

The suspended interest as at 30 June, 2020 was eventually written off using the Kshs.1,200,000,000 provided for the loan write-offs. The balances that ought to have been written off remained in the books of the Corporation. It is not clear how the balances that had already been approved for write off will be settled.

In addition, the loan waivers of Kshs.1,200,000,000 was used to settle balances that had not been approved by the Board as follows:

- (i) Unsecured group loans all counties - the Board had approved 126 loans totalling Kshs.113,393,163 for written off. However, the Management had written off 120 loans with an amount of Kshs.141,053,626 but six loans were not written off despite having an overpayment of Kshs.27,660,463.
- (ii) County loans - 4271 loans amounting to Kshs.934,664,123 were approved by the Board for write off while the cumulative amounts paid was Kshs.1,576,669,981 resulting in unexplained 395 additional loans written off with an overpayment of Kshs.642,005,858.
- (iii) In addition, of the amounts written off, Kshs.746,234,994, was related to suspended interests that had not been provided for when the loan write offs were proposed. This resulted in an accumulated write off of Kshs.932,290,756 on suspended interests that had not been provided for when the write offs were proposed.

Consequently, the accuracy, completeness and validity of the loan balances of Kshs.7,748,755,000 as at 30 June, 2020 could not be confirmed.

4.2 Net Medium-Term Loans to Customers

The net medium-term loans to customers of Kshs.7,748,754,000 as at 30 June, 2020 includes an amount of Kshs.22,661,000 advanced to thirteen farmers in Kapsabet.

Information available indicates that the Corporation advanced the amount against various collaterals in form of title deeds which appeared fraudulent.

The Corporation filed six cases in Court against the fraudsters and judgement was entered in favor of the Corporation. However, execution of the warrants issued had not been made casting doubt on the recoverability of the amount of Kshs.22,661,000 advanced to the farmers.

Further, as disclosed under Note 9(a) to the financial statements, the Directors loans of Kshs.44,929,000 includes loan arrears of Kshs.4,138,000 and Kshs.2,058,000 due from two former Directors of the Corporation. Although the Management engaged an advocate to charge securities that guaranteed these loans due from former Directors, the securities had not been executed as at 30 June, 2020.

4.3 Non-Performing Loans

The net medium-term loans to customers balance of Kshs.7,748,755,000 also includes non-performing loans amounting to Kshs.2,592,482,619 which are attributed to 4,743 farmers. No efforts have been made to recover the loan amounts.

Consequently, the recoverability of the net medium term loans to customers of Kshs.7,748,755,000 as at 30 June, 2020 cannot be confirmed.

4.4 Loans Closed Off by Super User and Undefined Users

Examination of system logs and loan close up indicated that a total of 2,255 loans amounting to Kshs.1,159,938,173 were closed by the super users (IT Department). No explanation was provided on why the super users closed the loan accounts contrary to Section 4.7.1 of the Operations Procedures which states that the branch accountant is the only one authorized to close a loan upon confirming that the loan servicing account has sufficient credit by applying the necessary codes in the system.

Further, a total of 4,603 loans amounting to Kshs.2,962,815,541 were closed by undefined users in the system. In addition, loans worth Kshs.197,375,467 were closed by the systems vendor.

Consequently, the accuracy, validity, and completeness of the net medium-term loans to customers of Kshs.7,748,755,000 as at 30 June, 2020 could not be confirmed.

4.6 Long Outstanding Ex Staff Loans

The net medium-term loans to customers of Kshs.7,748,754,000 includes an amount of Kshs.544,639,000 under staff loans which further includes an amount of Kshs.25,594,418 due from ex-staff that have been outstanding for a long period. Management has not disclosed measures taken recover the long outstanding loans.

Consequently, the recoverability of the outstanding loans of Kshs.25,594,418 to ex staff as at 30 June, 2020 is doubtful.

4.7 Unsecured Loans

4.7.1 Loan RIM No. 44860

The Corporation advanced a client a loan of Kshs.4,000,000 for purchase of 85 bulls and fencing and farming installations on 10 November, 2013 which was to be repaid monthly with a banker's order of Kshs.188,408 with effect from 30 March, 2014. The client however, failed to adhere to the conditions of the contract and the Corporation through a public auction on 2 August, 2018 sold off the security LR. No. KAJIADO/LORNGUSUA/2526 at Kshs.2,000,000.

As at the end of the financial year, the total payment amounted to Kshs.2,563,000 which included proceeds from auction of Kshs.2,000,000 and part payment of Kshs.563,000 which had been made by client. The total outstanding debt stood at Kshs.7,200,563 which is unsecured since the security had already been sold and transferred to the new owner. Recovery of the amount of Kshs.7,200,563 owed to the Corporation is doubtful.

4.7.2 Loan RIM No. 56567

A client had an outstanding balance of Kshs.64,721,778 from a loan of Kshs.100,000,000 disbursed on 25 January, 2018. The loan was issued without security and registration of debenture is still pending two years after the loan was issued.

Under the circumstances, the Corporation risks loss of the outstanding loan balance of Kshs.35,278,222 in case of default.

4.7.3 Unsecured Loan - Loan RIM No. 58574

The Corporation approved and disbursed a loan amounting to Kshs.20,000,000 on 21 August, 2018 to a company for establishment of 380 acres of sugarcane whose security was a parcel of land in Naivasha L.R No. 4358/10(IR No. 197797). The outstanding balance as at 30 June, 2020 stood at Kshs.22,992,080 with total arrears of Kshs.2,992,080. The following observations were made on review of the valuer's report on the security:

- (i) The securing property is registered in the name of an individual. However, it was established that the title was fraudulently registered and that the true owner is the Kenya Agricultural and Livestock Research Organization (KALRO) as per court ruling dated 15 July, 2019 and a new title deed L.R. No. 27158 (in the name of KALRO) which is an amalgamation of L.R No. 4358 was issued on 1 March, 2004.
- (ii) There is a charge dated 4 December, 2018 registered against the title in favour of the Corporation to secure unspecified amount.
- (iii) The property is vacant, undeveloped and fallow with bushes and shrubs.

- (iv) The property measures 28.86 hectares or 71.32 acres and not 380 acres as detailed by the borrower during application.

As per Demand Notice dated 9 December, 2019, the Corporation visited the said project farm and confirmed that the financed project does not exist.

Under the circumstances, the recoverability of the loan balance of Kshs.22,992,080 as at 30 June, 2020 remains doubtful.

4.7.4 Unsecured Loan - Loan RIM No.62694

The Corporation approved and disbursed a loan amount of Kshs.10,000,000 on 11 February, 2019 to client ID 030062694 and Account ID 1200300626941. However, the loan security was a property co-owned and therefore it was not possible to establish the status of the security.

Under the circumstances, the security of the loan of Kshs.10,000,000 could not be confirmed.

5.0 Unreconciled Transaction Between AFC and Commodity Fund

The statement of financial position reflects a balance of Kshs.179,442,000 under trade and other payables which includes an amount of Kshs.9,515,756 due to the Commodities Fund. However, records maintained by Commodities Fund reflects a balance of Kshs.1,068,976,155 resulting in an unreconciled difference of Kshs.1,059,460,399.

Consequently, the accuracy and completeness of trade and other payables balance of Kshs.179,442,000 as at 30 June, 2020 could not be confirmed.

6.0 Cash and Bank Balances

6.1 Inaccuracy of Cash and Bank Balances

The statement of financial position reflects cash and cash equivalents of Kshs.147,795,000 which, as disclosed in Note 13(a) to the financial statements, comprised of various account balances from the branches and the Head Office. Examination of reconciliation statements revealed material variances from the regions bank's reconciliation statements compared to Head Office. Further, the adjusted cash book balance was not applied resulting in a misstatement of cash and bank balances by Kshs.2,100,534.

Under the circumstances, the accuracy and completeness of cash and Cash equivalents balance of Kshs.147,795,000 as at 30 June, 2020 could not be confirmed.

6.2 Loss of Cash

As previously reported, examination of records between January, 2005 and November, 2010 revealed that the Corporation lost a sum of Kshs.35,840,714 through

fraudulent transactions involving encashment of 196 cheques by various staff members. Although, the cases are still in Court, no provisions for the loss have not been incorporated in the financial statements.

Further, the Corporation fraudulently lost cash at AFC Eldoret Branch through unremitted transfers and collections amounting to Kshs.4,142,450 and Kshs.4,947,950, respectively. However, no action have been made toward the recovery of the stolen cash.

7.0 Board Expenses

The statement of comprehensive income reflects board expenses amounting to Kshs.21,770,000. Examination of board composition and appointments revealed the following unsatisfactory issues:

- (i) Two Board Members representing the Ministries of Agriculture, Livestock and Fisheries- State Department for Crops and The National Treasury were not gazetted and their appointment letters were also not provided for audit review.
- (ii) Five individuals described as Members were paid sitting allowances and other allowances while they were not indicated as Board of Directors in the other information accompanying the financial statements. In addition, documentary evidence on their gazette and appointment letters were not provided for audit review.

Under the circumstances, the accuracy, validity and completeness of the Board expenses of Kshs.21,770,000 could not be confirmed.

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

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Conclusion on Lawfulness and Effectiveness in Use of

Public Resources sections of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Renovation of Machakos Regional Offices

The statement of financial position reflects a balance of Kshs.1,099,588,000 under property and equipment which, as disclosed in Note 8(a) to the financial statements, includes an amount of Kshs.152,203,000 being the net book value of furniture and fittings. The latter balance includes furniture and fittings additions during the year of Kshs.47,966,000. Included in the additions is an amount of Kshs.10,324,589 in respect of a contract for renovation of Machakos Regional Offices for a contract period of 16 weeks. The contract was signed on 31 January, 2019 and work commenced on 13 February, 2019. However, certified items relating to provisional sums of Kshs.450,000 and preliminaries of Kshs.100,000 were not supported. In addition, the defects liability period expired on 21 March, 2020.

A visit to Machakos Region Offices on 10 November, 2020 revealed that the project was not done as per contract terms and specifications even though the items were certified by the quantity surveyor for payments despite poor workmanship and incomplete works.

Under the circumstances, the Corporation did not obtain value for money for the renovation works amounting to Kshs.10,324,589.

2.0 Microsoft Dynamics GP Up-grade System

During the year under review, the Corporation procured a Microsoft Dynamics GP Upgrade System at a contract sum of Kshs.6,372,344 and for a contract period of 14 weeks from 14 July, 2019 when the contract was signed. However, the Corporation had not fully automated its financial reporting processes despite having installed and upgraded its IT based financial support systems. The reconciliation of the fixed assets was not yet complete while physical tagging, verification, reconciliation and upload of the assets had not been done and the register could not be accessed from the system. The payment vouchers were also still being generated manually.

Further, it was not possible to confirm how an amount of Kshs.641,800 on project disbursements was utilized. In addition, the Corporation purchased 9000 aluminum bar codes equipment at a cost of Kshs.1,722,600 during the year. No explanation was provided for the double purchase as the contracted company was to do the same work.

Consequently, value for money was not obtained on the procurement and installation of Microsoft Dynamics GP Upgrade at a contract sum of Kshs.6,372,344.

3.0 Enhanced Fitness System Module Not Fully Implemented

The Corporation procured an Enhanced Fitness System Module, that was procured at a contract a sum of Kshs.13,804,000 to improve the efficiency and effectiveness of the

existing system. The module was procured through direct procurement method and the contract signed on 11 July, 2019 for a six-month contract period.

The total payments as at 30 June, 2020 stood at Kshs.10,382,000 or 75% of the contract cost. A prototype financial and credit analysis module had been deployed as at 14 February, 2020. However, the ICT Division indicated that the test module could not be deployed on live environment because there were other dependable variables not yet developed. Further, the developer was requesting for 30% of the 2nd installment to facilitate final stages of the project implementation.

The system had not been integrated to the IPRS for ID validation and it did not mirror the core banking system resulting in the latter reflecting more loans than the fitness system. The performance security was not provided and although the contract period had expired, no documents were provided for audit review in support of contract extension.

Consequently, the Corporation did not realize value for money from the expenditure of Kshs.10,382,000 incurred on procurement of the Enhanced Fitness System Module.

4.0 Customer Feedback System Module Not Installed

The Corporation Procured Customer Feedback System Module through direct procurement method and the contract awarded to the same vendor who had supplied the Enhanced Fitness System Module. The contract was awarded to the developer on 14 July, 2020 for a contract sum of Kshs.12,585,600 and a duration of 3 months. A 50% down payment of Kshs.6,292,800 was made on 17 July, 2020 and a demand for 30% of the contract amount further requested on 17 September, 2020 translating to a possible 80% payment without installation of the module.

The performance security equivalent to and not more than ten per cent of the contract amount before signing of the contract was not provided. A down payment of 50% of the contract sum violates the provisions of Section 147(2) of the Public Procurement and Asset Disposal Act, 2015 which states that advance payments granted should not exceed twenty per cent of the price of the tender and should be paid upon submission by the successful tenderer to the procuring entity of an advance payment security equivalent to the advance itself and that security from a reputable bank or any authorized financial institution.

Further, it was not clarified why the module was to be a stand-alone instead of being part of the Enhanced Fitness System. The system has not been installed to date.

Consequently, value for money was not realized on the procurement of the Customer Feedback System Module at a contract sum of Kshs.12,585,600.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the

financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

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

Responsibilities of Management and the Board of Directors

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

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

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

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

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Corporation monitors compliance with relevant

legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to

those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

10 February, 2022

Agricultural Finance Corporation
 Reports and Financial Statements
 For the year ended 30th June, 2020

STATEMENT OF COMPREHENSIVE INCOME

| Revenues | Notes | 2020 | 2019 |
|----------------------------------|--------------|--------------------|--------------------|
| | | KES'000 | KES'000 |
| Interest Income: | | | |
| Interest on Loans | 2 (a) | 837,457 | 778,759 |
| Interest on Short Term Deposits | 2 (b) | 83,940 | 119,688 |
| Total interest income | | 921,397 | 898,447 |
| Less: Interest expenses | | | |
| Interest on Redeemable Loans | 3 (a) | 15,005 | 15,395 |
| Interest on RSF | 3 (b) | 9,379 | 9,430 |
| Rebate Interest | 4 | 2,753 | 2,459 |
| Total Interest expenses | | 27,137 | 27,285 |
| Net interest income | | 894,261 | 871,162 |
| Non-Interest income | | | |
| Other Operating Income | 5 (a) | 183,323 | 171,892 |
| Fee Income | 5 (b) | 172,225 | 170,980 |
| Income from doubtful debts | 6 | 1,009,952 | 252,138 |
| Total Non-Interest income | | 1,365,499 | 595,010 |
| Total Revenues | | 2,259,760 | 1,466,172 |
| Operating Expenses | | | |
| Staff Cost | 7 (a) | (767,651) | (681,735) |
| Board Expenses | 7 (b) | (21,770) | (17,320) |
| Administration Costs | 7 (c) | (298,378) | (299,854) |
| Depreciation & Amortization | 8 (a & b) | (110,203) | (154,129) |
| Charge for Doubtful Debts | 12 (a) | (743,015) | - |
| Total Expenses | | (1,941,017) | (1,153,038) |
| Profit before tax | | 318,743 | 313,134 |
| Tax for the Year | 23 (a) | (28,484) | (90,153) |
| Profit after tax | | 290,259 | 222,982 |

STATEMENT OF FINANCIAL POSITION

| | Notes | 2020 KES.'000 | 2019 KES.'000 |
|---|--------|-------------------|-------------------|
| ASSETS: | | | |
| Non-Current Assets | | | |
| Property and Equipment | 8 (a) | 1,099,588 | 1,122,232 |
| Intangible Assets | 8 (b) | 38,197 | 48,140 |
| Deferred Tax Asset | 10 | 3,563 | 555,557 |
| Repossessed Farm Properties | 11 | 267,794 | 268,041 |
| Net Medium Term Loans to Customers | 9 (a) | 7,748,754 | 6,238,828 |
| Total Non- Current Assets | | 9,157,896 | 8,232,798 |
| Current Assets | | | |
| Cash and Bank Balances | 13 (a) | 147,795 | 101,272 |
| Short Term Deposits | 14 | 778,674 | 1,103,850 |
| Net Short Term Loans to Customers | 9 (b) | 1,143,204 | 1,961,846 |
| Trade and Other Receivables | 15 | 171,022 | 140,942 |
| Inventories | 16 | 4,020 | 2,695 |
| Total Current Assets | | 2,244,715 | 3,310,605 |
| Total Assets | | 11,402,611 | 11,543,403 |
| EQUITY AND LIABILITIES | | | |
| Equity and Reserves | | | |
| Grants | 17 | 3,617,851 | 3,623,994 |
| Government Equity Capital | 18 | 2,687,766 | 2,687,766 |
| General Reserve | 19 (a) | 1,814,631 | 1,766,436 |
| Revaluation Reserve | 19 (b) | 787,618 | 787,618 |
| Total Equity and Reserves | | 8,907,866 | 8,865,814 |
| Non-Current Liabilities | | | |
| Redeemable Government Loans and Interest: | | | |
| Interest: | 20 (a) | 558,599 | 543,204 |
| Risk Sharing Fund | 20 (b) | 377,215 | 391,866 |
| Agency Funds | 20 (c) | 831,734 | 831,734 |
| Total Non-Current Liabilities | | 1,767,547 | 1,766,803 |
| Current Liabilities | | | |
| Payables | 21 (a) | 437,883 | 390,589 |
| Trade and Other Payables | 21 (b) | 179,442 | 125,049 |
| Current Tax Payable | 21 (c) | 100,312 | 384,752 |
| Current Accounts | 13 (b) | 9,561 | 10,395 |
| Total Current Liabilities | | 727,198 | 910,786 |
| Total Equity and Liabilities | | 11,402,611 | 11,543,403 |

Agricultural Finance Corporation
Reports and Financial Statements
for the year ended 30th June, 2020

STATEMENT OF FINANCIAL POSITION (Continued)

The financial statements set out on pages 1 to 51 were approved by the Board of Directors on 24th September 2020 and were signed on its behalf by:



Mrs. Rose Ochanda
Ag. Managing Director

Dated _____



CPA Tom O Akeno
General Manager - Finance
ICPAK M/NO: 8116

Dated _____



Hon. Franklin Bett
Chairman

Dated _____

STATEMENT OF CHANGES IN EQUITY

| | Notes | Government Equity Capital | General Reserve | Revaluation Reserve | Grants | Totals |
|---------------------------------------|--------|------------------------------|--------------------|------------------------|------------------|------------------|
| | | KES.'000 | KES.'000 | KES.'000 | KES.'000 | KES.'000 |
| 2018: | | | | | | |
| At 1 July 2018 - As previously stated | | 2,687,766 | 1,030,715 | 787,618 | 3,803,691 | 8,309,790 |
| Grant - Development Vote | | - | - | - | 300,000 | 300,000 |
| Taita Taveta Settlement Fund | | - | - | - | (102,482) | (102,482) |
| Reclassification of RSF | | - | - | - | (377,215) | (377,215) |
| Waiver of Interest on GOK Loan | | - | 570,154 | - | - | 570,154 |
| Sale of Kitale House | | - | (3,000) | - | - | (3,000) |
| Accrued interest on GOK Loan | | - | (40,277) | - | - | (40,277) |
| Reversal of Contract Gratuity | | - | 513 | - | - | 513 |
| Interest on RSF for previous years | | - | (14,651) | - | - | (14,651) |
| Profit for the Year | 19 (a) | - | 222,982 | - | - | 222,982 |
| Balance as at 30 June 2019 | | 2,687,766 | 1,766,436 | 787,618 | 3,623,994 | 8,865,814 |
| Balance as at 1 July 2019 | | 2,687,766 | 1,766,436 | 787,618 | 3,623,994 | 8,865,814 |
| Muri Farm Settle Fund | 19 (a) | - | - | - | (6,143) | (6,143) |
| Deposit on rent treated as income | 19 (a) | - | (2,994) | - | - | (2,994) |
| Reversal of Tax Liability | 19 (a) | - | 312,924 | - | - | 312,924 |
| Deferred Tax Reversal | 19 (a) | - | (551,994) | - | - | (551,994) |
| Profit for the Year | 19 (a) | - | 290,259 | - | - | 290,259 |
| Balance as at 30th June 2020 | | 2,687,766 | 1,814,631 | 787,618 | 3,617,851 | 8,907,866 |

STATEMENT OF CASH FLOW

| | | 2020 | 2019 |
|---|------------|------------------|------------------|
| | NOTES | KES.'000 | KES.'000 |
| Cash flow from operating activities: | | | |
| Profit/(Loss) Before Taxation | | 318,743 | 313,134 |
| Adjustments for: | | | |
| Interest on Short Term Deposits | 2 (b) | (83,940) | (119,688) |
| Depreciation of Property & Equipment | 8 (a) | 83,312 | 87,099 |
| Amortization of Intangible Assets | 8 (b) | 26,891 | 67,030 |
| Profit/loss on Disposal of Assets | 22 (b) | (4,109) | 1,242 |
| Interest expense | 3 (a & b) | 24,384 | 24,826 |
| Increase in Inventories | 16 | (1,325) | 896 |
| Increase in Trade and Other Receivables | 15 | (30,080) | 8,086 |
| Decrease in Trade and Other Payables | 21 (a & b) | 103,416 | (230,347) |
| Interest paid | 20 (b) | (25,810) | - |
| Net cash flows generated from operating activities | | 411,481 | 152,277 |
| Cash flow from Investing activities: | | | |
| Purchase of Property & Equipment | 8 (a) | (60,668) | (78,673) |
| Purchase of Intangible Assets | 8 (b) | (16,947) | (10,439) |
| Interest on Short Term Deposits | 2 (b) | 83,940 | 119,688 |
| Proceeds from disposal of Property & Equipment | 22 (c) | 4,141 | 10,797 |
| Increase in Repossessed Farm Properties | 11 | 247 | (8,873) |
| Decrease in Short Term Loans to Customers | 9 (b) | 818,642 | 19,681 |
| Proceeds from disposal of Repossessed Farm Properties | | 215 | - |
| Decrease/Increase in Loans to Customers | 9 (a) | (1,509,732) | (636,110) |
| Net cash flow used in investing activities | | (680,163) | (583,927) |
| Cash flow from Financing activities: | | | |
| Muri Farm Settle Fund | 17 | (6,143) | - |
| Interest on GOV Loans | 20 (a) | - | (501,820) |
| Grant - Development Vote | 17 | - | 300,000 |
| Taita Taveta Settlement Fund | 17 | - | (102,482) |
| Waiver of GOK Interest on Loan | 20 (a) | - | 570,154 |
| Sale of Kitale House | 19 (a) | - | (3,000) |
| Accrued Interest on GOK Loan | 20 (a) | - | (40,277) |
| Reversal of Contract Gratuity | 19 (a) | - | 513 |
| Interest on RSF for previous years | 20 (b) | - | (14,651) |
| Deposit on rent treated as income | 19 (a) | (2,994) | - |
| Net cash flow used in financing activities | | (9,137) | 208,437 |

STATEMENT OF CASH FLOW (Continued)

| | | | |
|--|--------------------|----------------|------------------|
| Net increase in cash and cash equivalent | | (277,819) | (223,213) |
| Cash and cash equivalent at the beginning of the year | | 1,194,728 | 1,417,941 |
| Cash and cash equivalent at the end of the period | 13 & 14 | 916,908 | 1,194,728 |

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 subject to readily convertible to known amounts of cash and are insignificant risk of changes in value.

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30TH
 JUNE 2020**

| | Original budget | Adjustments | Final budget | Actual on comparable basis | Performance difference |
|----------------------------------|------------------|-------------|------------------|----------------------------|------------------------|
| | 2019-2020 | 2019-2020 | 2019-2020 | 2019-2020 | 2019-2020 |
| Revenue | Kshs | Kshs | Kshs | Kshs | Kshs |
| Interest Income: | | | | | |
| Interest on Loans | 1,397,383 | - | 1,397,383 | 837,457 | (559,926) |
| Interest on Short Term Deposits | 133,124 | - | 133,124 | 83,940 | (49,184) |
| Total interest income | 1,530,507 | - | 1,530,507 | 921,397 | (609,110) |
| Non-Interest income | | | | | |
| Fee/Other Operating Income | 402,762 | - | 402,762 | 355,548 | (47,215) |
| Income from doubtful debts | 300,000 | - | 300,000 | 1,009,952 | 709,952 |
| Total Non-Interest income | 702,762 | - | 702,762 | 1,365,499 | 662,737 |
| Total Revenues | 2,233,269 | - | 2,233,269 | 2,286,897 | 53,628 |
| Expenses | | | | | |
| Staff Cost | 851,700 | - | 851,700 | 767,651 | 84,049 |
| Board Expenses | 35,000 | - | 35,000 | 21,770 | 13,230 |
| Administration Costs | 402,800 | - | 402,800 | 298,378 | 104,422 |
| Depreciation & Amortization | 200,000 | - | 200,000 | 110,203 | 89,797 |
| Charge for Doubtful Debts | 250,000 | - | 250,000 | 743,015 | (493,015) |
| Interest on Redeemable Loans | 16,100 | - | 16,100 | 24,384 | (8,284) |
| Rebate Interest | 3,000 | - | 3,000 | 2,753 | 247 |
| Total expenditure | 1,758,600 | - | 1,758,600 | 1,968,154 | (209,554) |
| Surplus for the period | 474,669 | - | 474,669 | 318,743 | (155,926) |

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30TH JUNE 2020
(Continued)**

In line with The Public Finance Management Act 2012, expenditures in excess of 10% of the approved budget were submitted to The National Treasury for review and approval. In this regard, upon the analysis of the financial performance of the Corporation for the period ended 31st December 2019, the management reviewed the approved budget for the financial year 2019/2020 to take into account adjustments in funding, revenue and operational expenditures. Pursuant to this requirement, we submitted our reviewed budget items which were re-allocations from other votes. The budgetary reallocation in the Supplementary budget had no overall effect on the approved budget amount for the financial year 2019/20.

The target on Interest Income was not achieved as majority of the disbursements made during the year were development loans whose interest accruals are spread over a longer term compared to seasonal crop loans which are for a period of 12 months.

Non-Interest Income - the growth of 129.8% was largely informed by the receipt of KES 1.2 billion being Government injection towards conclusion of the loan waiver exercise following the presidential directive of 2017. During the period under review, collections from NPLs amounted to KES 1.01 billion.

Agricultural Finance Corporation
Reports and Financial Statements
For the year ended 30th June, 2020

NOTES TO FINANCIAL STATEMENTS

1. GENERAL INFORMATION

AFC is established by and derives its authority and accountability from Agricultural Finance Corporation Act Cap 323. The Corporation is wholly owned by the Government of Kenya domiciled in Kenya. The Corporation's principal activity is providing credit facilities for the purpose of developing agriculture.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis except for measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Corporation's accounting policies in areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Corporation and all values are rounded to the nearest thousand (KES'000).

The financial statements have been prepared in accordance with the PFM Act 2012, the Corporations Act Cap 446, Agricultural Finance Corporation Act Cap 323, International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) applicable to entities reporting under IFRS.

NOTES TO FINANCIAL STATEMENT (Continued)

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2020

IFRS 16: Leases

The new standard, effective for annual periods beginning on or after 1st January 2019, introduces a new lessee accounting model, which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

Amendments to IAS 12 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that all income tax consequences of dividends should be recognised when a liability to pay a dividend is recognised, and that these income tax consequences should be recognised in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions to which they are linked.

NOTES TO FINANCIAL STATEMENT (Continued)

APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Continued)

Amendments to IAS 23 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that the costs of borrowings made specifically for the purpose of obtaining a qualifying asset that is substantially completed can be included in the determination of the weighted average of borrowing costs for other qualifying assets.

Amendments to IAS 19 titled Plan Amendment, Curtailment or Settlement (issued in February 2018)

The amendments, applicable to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1st January 2019, requires an entity to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity re-measures its net defined benefit liability (asset) in the manner specified in the amended standard.

i) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2019

IFRS 17 Insurance Contracts (Issued 18 May 2017)

IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach.

NOTES TO FINANCIAL STATEMENT (Continued)

APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Continued)

These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021.

Amendments to References to the Conceptual Framework in IFRS Standards (Issued 29 March 2018- Applicable for annual periods beginning 1 January 2020)

Together with the revised Conceptual Framework published in March 2018, the IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised Conceptual Framework.

Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

NOTES TO FINANCIAL STATEMENT (Continued)

APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Continued)

iii) Early adoption of standards

The entity did not early – adopt any new or amended standards in financial year 2019/20.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

a) Revenue Recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the entity and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or expected to be received in the ordinary course of the entity's activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the entity's activities as described below.

- i) Revenue from the sale of goods and services** is recognised in the year in which the entity delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) Grants from National Government** are recognised in the year in which the entity actually receives such grants.
- iii) Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method.

NOTES TO FINANCIAL STATEMENT (Continued)

- iv) **Rental income** is recognised in the income statement as it accrues using the effective lease agreements.
- v) **Other income** is recognised as it accrues.
- vi) **Income from doubtful debts** is recognised upon actual collections.

b) **Property and Equipment**

All categories of property and equipment are initially recorded at cost less accumulated depreciation and impairment losses. Certain categories of property and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.

Subsequent costs are included in the assets carrying amount or recognised as a separate asset, appropriate, only when it is probable that the future economic benefits associated with item will flow to the entity and the cost of the item can be measured reliably. Repairs and maintenances expenses are charged to profit and loss account in the year to which they are incurred. Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement.

Gains and losses on disposal of items of property and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognised in profit or loss in the income statement.

NOTES TO FINANCIAL STATEMENT (Continued)

c) Depreciation and Impairment of Property & Equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the costs of ongoing but incomplete works on buildings and other civil works and installations.

Depreciation on Property and Equipment is recognised in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount over their estimated useful lives and pro-rated after deducting a scrap value of KES 20. The rates used are set out in the Corporation's accounting policy for Non-Current assets as follows:

Freehold land Nil

Leasehold premises and improvements rates are based on the unexpired lease term or 50 years whichever is less.

| | | | |
|----------------------|-------|------------------------|-------|
| Motor vehicles | 25% | Computers and Software | 33.3% |
| Furniture & Fittings | 12.5% | Buildings | 2% |
| Office equipment | 20% | | |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Excess depreciation, representing the additional depreciation based on revalued amounts over depreciation based on historical costs, is transferred annually from revaluation surplus on property to retained earnings, net of deferred tax.

NOTES TO FINANCIAL STATEMENT (Continued)

d) Intangible Assets

Costs associated with maintaining computer software programs are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Corporation are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use it;
- There is an ability to use the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortized over their estimated useful lives which is three.

e) Amortization and Impairment of Intangible Assets

Amortization is calculated on the straight-line basis over the estimated useful life of computer software for three years.

All computer softwares are reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an

NOTES TO FINANCIAL STATEMENT (Continued)

impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

f) Trade and Other Receivables

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are charged to the Income statement and written off after all recovery efforts have been exhausted.

g) Taxation

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Corporation operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

NOTES TO FINANCIAL STATEMENT (Continued)

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

NOTES TO FINANCIAL STATEMENT (Continued)

n) 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. For the purposes of these financial statements, cash and cash equivalents also include short term deposits and branch imprests floats at the end of the financial year.

o) Trade and Other Payables

Trade and other payables are non-interest bearing and are carried at amortized cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the entity or not, less any payments made to the suppliers.

p) Provision for Staff Leave Pay

All employees' entitlements to annual leave days which are recognised as they accrue to the employees. At the end of the financial year, a provision is made for the estimated liability for annual leave not utilized at the reporting date.

q) Farm Properties in Possession

These are clients farms that failed to attract bidders/buyers at a public auction, hence the Corporation purchased them at the reserved price. The acquired farms will be later disposed off through a competitive bidding or a private treaty.

NOTES TO FINANCIAL STATEMENT (Continued)

r) Net Loans to Customers

Loans and advances to customers and staff are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market and which the Corporation does not intend to sell immediately or in the near term. Loans and advances to customers are recognised when cash is advanced to borrowers and are net off the provision of bad and doubtful debts.

s) Legal and other claims

Provisions for legal claims are recognised when the Corporation has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

t) Derecognition

The Corporation derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or substantially all the risks and rewards of ownership incidental to the financial asset are transferred. A financial liability is derecognised when its contractual obligations are redeemed or otherwise extinguished.

u) Subsequent Events

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

NOTES TO FINANCIAL STATEMENT (Continued)

v) Related Parties Disclosures

Government of Kenya

The Government of Kenya is the principal shareholder of the entity, holding 100% of the entity's equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the entity, both domestic and external. There were no other entity transactions involving the Government of Kenya.

Employees

The entity provides certain qualifying employees with car and housing loans on terms more favourable than available in the market. The benefit obtained by staff is subjected to income tax as required under the Kenya Income Tax Act.

Directors have a statutory duty to avoid situations in which they have or may have interests that conflict with those of the Corporation. Business transactions with all parties, including the Directors or their related parties are carried out at arms' length. In the financial year 2019/20 the Directors submitted their annual declarations of interests which included:

An acknowledgement that should it come to the attention of a Director that a matter concerning the Corporation may result in a conflict of interest, they are obliged to declare the same and will exclude themselves from any discussion or decision over the matter in question.

An acknowledgement that should the Director be appointed to the Board of an entity, including a Government entity that may expose the Director to potential or actual conflict of interest, the Director will be obliged to declare such appointment, undergo an assessment to determine the extent of such conflict and, where applicable, offer their resignation as a Director where the conflict cannot be mitigated by the existing Board policies for the management of conflicts of interest.

NOTES TO FINANCIAL STATEMENT (Continued)

An acknowledgement that the foregoing also applies to interests of the immediate family members of the Directors.

i) Nature of related party relationships

Companies and other parties related to the Corporation include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

| Key management remuneration | 2020 KES'000 | 2019 KES'000 |
|------------------------------------|-------------------------|-------------------------|
| Directors | 22,172 | 17,320 |
| Key management compensation | 46,200 | 48,449 |

w) Contingent Liability

The Corporation 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. The Corporation didn't have any contingent liability for the period under review.

5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION

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 Entity based its assumptions and estimates on parameters available when the financial statements were prepared.

NOTES TO FINANCIAL STATEMENT (Continued)

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 Entity
- The nature of asset, its susceptibility, 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

Impairment losses on loans and advances

The estimation of potential credit losses is inherently uncertain and depends upon many factors, including general economic conditions, changes in individual customers' circumstances, structural changes within industries that alter competitive positions and other external factors such as legal and regulatory requirements.

Impairment is measured for all accounts that are identified as non-performing. All relevant considerations that have a bearing on the expected future cash flows are taken into account which include but not limited to future business prospects for the customer, realizable value of securities, the Corporation's position relative to other claimants and the existence of any court injunctions placed by the borrower. Subjective judgments are made in this process of cash flow determination both in value and timing and may vary from one person to another and team to team. Judgments may also change with time as new information becomes available.

The Corporation reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recognized in profit or loss. In particular, judgment by the

NOTES TO FINANCIAL STATEMENT (Continued)

Operation department is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on the assumptions about a number of factors and actual results may differ, resulting in future changes in the allowance.

The Corporation also makes a collective impairment measurement for exposures which, although not specifically identified as non-performing, have an inherent risk of default. The portfolio constitutes a large number of loan and advances account cutting across various sectors. Assets with similar risk characteristics are grouped together for the purpose of determining the collective impairment within the corporation.

NOTES TO FINANCIAL STATEMENT (Continued)

| | 2020 KES.'000 | 2019 KES.'000 |
|---------------------------------|------------------|------------------|
| 2 (a). Interest on Loans | | |
| Interest on Medium Term Loans | 685,671 | 636,632 |
| Interest on Short Term Loans | 122,066 | 115,593 |
| Interest on Staff Loans | 29,720 | 26,534 |
| Balance as at 30th June | 837,457 | 778,759 |

| | 2020 KES.'000 | 2019 KES.'000 |
|---|------------------|------------------|
| 2 (b). Interest on Short Term Deposits | | |
| Details are as follows:- | | |
| Short Term Deposits | 82,543 | 119,224 |
| Bank Accounts | 1,398 | 464 |
| Balance as at 30th June | 83,940 | 119,688 |

3 (a). Interest on Redeemable Loans

The interest charge on redeemable loans outstanding as at 30th June 2020 were as follows:

| | 2020 KES.'000 | 2019 KES.'000 |
|--------------------------------|------------------|------------------|
| GOK Restructured Red. Loan | 15,005 | 15,395 |
| Balance as at 30th June | 15,005 | 15,395 |

3 (b). Interest on RSF

| | | |
|--------------------------------|--------------|--------------|
| Risk Sharing Fund | 9,379 | 9,430 |
| Balance as at 30th June | 9,379 | 9,430 |

These are long term Government loans advanced to the Corporation and repayable at specific rates of interest accrued on annual basis. The Corporation is not exposed to the risks of interest rate fluctuations in the market as the rates were determined at the time of loan receipt.

NOTES TO FINANCIAL STATEMENT (Continued)

| 4. Rebates Interest | 2020 | 2019 |
|--------------------------------|-----------------|-----------------|
| | KES.'000 | KES.'000 |
| Rebates Interest | 2,753 | 2,459 |
| Balance as at 30th June | 2,753 | 2,459 |

These are rebates paid to clients on their credit balances at the rate of 1 % p.a on loan repayments received in advance before the instalments fall due in compliance with AFC Act Cap 323.

| 5 (a). Other operating Income | 2020 | 2019 |
|--|-----------------|-----------------|
| Non-Interest Income | KES.'000 | KES.'000 |
| Rent income - Note 22 (a). | 150,709 | 88,991 |
| Profit on disposal of assets- Note 22 (b). | 4,109 | (1,242) |
| Agency commission | 3,387 | 3,849 |
| Sundries | 10,984 | 23,363 |
| Write back of provisions | 14,133 | 56,931 |
| Balance as at 30th June | 183,323 | 171,892 |

| 5 (b). Fees Income | 2020 | 2019 |
|--------------------------------|-----------------|-----------------|
| | KES.'000 | KES.'000 |
| Application & Forms fees | 25,488 | 24,448 |
| Conveyance | 59,148 | 56,905 |
| Loan Commitments Fees | 44,145 | 40,987 |
| Inspection fees | 97 | 106 |
| Other Loan Processing fees | 4,502 | 5,457 |
| Discharge of Securities Fees | 4,608 | 5,848 |
| Loan Waiver Processing Fees | 139 | 171 |
| Account Maintenance Fee Income | 34,099 | 37,059 |
| Balance as at 30th June | 172,225 | 170,980 |

These are incomes from applications, conveyancing and farm inspection fees received when loans are being processed during the year.

6. Income from doubtful debts

All loans considered to be non-performing are provided and classified as doubtful debts as the likelihood of full repayment is remote. However, any subsequent recoveries are recognized as income.

| | 2020 | 2019 |
|----------------------------------|------------------|-----------------|
| | KES.'000 | KES.'000 |
| Recoveries from NPL's - General | 858,338 | 252,138 |
| Recoveries from NPL's - Specific | 151,613 | - |
| Balance as at 30th June | 1,009,952 | 252,138 |

NOTES TO FINANCIAL STATEMENT (Continued)

| 7. (a) Staff Costs | 2020 | 2019 |
|---|-----------------|-----------------|
| | KES.'000 | KES.'000 |
| Salaries | 426,283 | 410,996 |
| Overtime | 2,806 | 2,826 |
| House allowance | 103,079 | 101,104 |
| Transport allowance | 46,052 | 45,593 |
| Hardship allowance | 9,425 | 9,718 |
| Acting/Duty & Aggregation allowance | 1,563 | 1,070 |
| Leave allowance | 4,142 | 3,114 |
| Other emoluments | 1,200 | 1,200 |
| Staff appointments & transfers allowances | 1,504 | 2,419 |
| Medical & staff Insurance expenses | 50,154 | 36,257 |
| Staff Insurance expenses | 4,217 | 4,147 |
| Pension contributions | 36,008 | 35,164 |
| Pension deficit contributions | 46,046 | - |
| NSSF employers contribution | 1,217 | 1,223 |
| Gratuities | 15,248 | 15,151 |
| Welfare & Uniforms | 18,707 | 11,752 |
| Total | 767,651 | 681,735 |

| 7. (b) Board Members' Expenses | 2020 | 2019 |
|---------------------------------------|-----------------|-----------------|
| | KES.'000 | KES.'000 |
| Chairman's Standing Fees | 960 | 795 |
| Sitting Allowance | 8,560 | 6,160 |
| Travelling Allowance | 1,939 | 1,849 |
| Night Out & Meal Allowance | 6,323 | 6,362 |
| Sundry Board Expenses | 4 | 809 |
| Training Expenses | 3,984 | 1,345 |
| Total | 21,770 | 17,320 |

NOTES TO FINANCIAL STATEMENT (Continued)

| 7. (c) General & Administrative Expenses: | 2020 | 2019 |
|--|------------------|-----------------|
| | KES.'000 | KES.'000 |
| Bank charges | 2,726 | 2,344 |
| Corporate Comm & advertisement | 7,853 | 13,324 |
| Publicity/Shows & Field days | 8,650 | 7,382 |
| ISO Certification | 803 | 6,045 |
| Corporate social responsibility/Donations | 5,761 | 2,909 |
| General office expenses | 15,032 | 15,851 |
| Insurance of Corporation assets | 1,043 | 2,090 |
| Insurance of Motor Vehicles | 4,998 | 8,642 |
| Land rent & rates | 912 | 1,268 |
| Legal fees | 7,618 | 1,429 |
| Maintenance of buildings | 4,276 | 1,886 |
| Maintenance of furniture & equipment | 13,871 | 5,700 |
| Office rentals | 21,223 | 20,714 |
| Printing & stationery | 6,086 | 7,226 |
| Professional consultants | 3,567 | 6,773 |
| Subscriptions to professional bodies | 1,850 | 1,982 |
| Research & development | 881 | 2,742 |
| Security | 27,056 | 27,126 |
| Software licences Taxes & licences | 36,704 | 29,050 |
| Telephone, internet & postage | 31,822 | 31,022 |
| General hotel & travel | 23,642 | 22,319 |
| Entertainment Expense | 1,115 | 567 |
| Training | 34,967 | 34,607 |
| Vehicle fuel & oil | 13,542 | 13,520 |
| Vehicle maintenance | 12,070 | 12,789 |
| Water, electricity & gas | 6,559 | 7,098 |
| Transformation expenses | 1,760 | 2,223 |
| Auditors Fees | 1,531 | 1,531 |
| Misappropriation | - | 9,090 |
| Fringe Benefit Tax | 460 | 604 |
| Total | 298,378 | 299,854 |
| Total | 1,087,799 | 998,909 |
| | 2020 | 2019 |
| Average number of employees at the end of the year was: | | |
| Permanent Employees - Management | 243 | 238 |
| Permanent employees – Unionisable | 251 | 279 |
| Total | 494 | 517 |

NOTES TO FINANCIAL STATEMENT (Continued)

| 8. (a) Property and Equipment | | Land & Building | Motor Vehicles | Furniture & Fittings | Computer Hardware | Office and ICT Equip and Others | Totals |
|--------------------------------------|--|--------------------------------|---------------------------|---|------------------------------|--|------------------|
| | | KES'000 | KES'000 | KES'000 | KES'000 | KES'000 | KES'000 |
| COSTS: | | | | | | | |
| As at 1st July 2019 | | 1,094,558 | 310,056 | 236,644 | 167,768 | 176,107 | 1,985,133 |
| Additions | | - | - | 47,966 | 1,190 | 11,512 | 60,668 |
| Disposal | | - | (18,411) | - | - | - | (18,411) |
| As at 30 June 2020 | | 1,094,558 | 291,645 | 284,610 | 168,958 | 187,619 | 2,027,390 |
| DEPRECIATION: | | | | | | | |
| Charge for previous years | | 187,223 | 241,836 | 110,180 | 160,163 | 163,500 | 862,901 |
| Charge for the year | | 21,081 | 29,780 | 22,228 | 3,508 | 6,715 | 83,312 |
| Disposals | | - | (18,410) | - | - | - | (18,410) |
| As at 30 June 2020 | | 208,303 | 253,206 | 132,407 | 163,671 | 170,215 | 927,802 |
| NET BOOK VALUE | | | | | | | |
| As at 30 June 2020 | | 886,254 | 38,439 | 152,203 | 5,287 | 17,405 | 1,099,588 |
| As at 30 June 2019 | | 907,335 | 68,220 | 126,464 | 7,605 | 12,608 | 1,122,232 |

NOTES TO FINANCIAL STATEMENT (Continued)

Property, plant and equipment include the following items that are fully depreciated:

| | COST | NORMAL ANNUAL DEPRECIATION CHARGE |
|---|----------------|--|
| | KES'000 | KES'000 |
| Motor Vehicles | 256,729 | 161,238 |
| Office Equipment | 146,534 | 138,105 |
| Computer Hardware | 125,923 | 142,151 |
| Software | 160,190 | 16,349 |
| Furniture and Fittings | 30,595 | 58,116 |
| Total as at 30th June | 719,971 | 515,959 |

8. (b) Intangible Assets

| | 2020 | 2019 |
|-----------------------------------|----------------|----------------|
| | KES'000 | KES'000 |
| COSTS: | | |
| As at 1st July | 227,857 | 217,418 |
| Additions | 16,948 | 10,440 |
| As at 30th June | 244,806 | 227,857 |
| AMORTISATION | | |
| As at 1st July | 179,717 | 112,687 |
| Charge for the year | 26,891 | 67,030 |
| As at 30th June | 206,608 | 179,717 |
| NET BOOK VALUE | 38,197 | 48,140 |

NOTES TO FINANCIAL STATEMENT (Continued)

| Loans to Customers | 2020 | 2019 |
|---|------------------|------------------|
| 9. (a) Loans to Customer | KES.'000 | KES.'000 |
| Medium Term Loans | 7,571,925 | 6,165,776 |
| Staff Loans | 544,639 | 428,847 |
| Directors Loans | 44,929 | 32,774 |
| Total Medium Loans to Customer | 8,161,493 | 6,627,397 |
| Less Accumulated Provision | | |
| Medium term loans | 399,985 | 344,958 |
| Staff Loans | 12,753 | 43,611 |
| Net loans to Customer | 7,748,754 | 6,238,828 |
| 9. (b) Short Term Loans to Customers | 1,185,875 | 2,298,109 |
| Less Accumulated Provision | | |
| Short term loans | 42,671 | 336,263 |
| Net Short Term Loans to Customers | 1,143,204 | 1,961,846 |
| Classified Under | | |
| 12. (b) Medium Term Loans | 399,985 | 344,958 |
| 12. (b) Short Term Loans | 42,671 | 336,263 |
| 12. (b) Staff Loans | 12,753 | 43,611 |
| 12. (b) Other debtors | - | 4,133 |
| Total | 455,410 | 738,966 |
| Medium Term Loans: These are loans whose maturity period are between twelve months and four years. | | |
| Staff Loans: These are loans to current staff and ex-staff | | |
| Directors Loans: These are loans to current & past directors | | |
| Short Term Loans: These are loans whose maturity periods is up to 12 months and instalments for medium term loans that will fall due within the next twelve months. | | |
| 10. Deferred Tax Asset: | Notes | 2020 |
| | | 2019 |
| | | KES.'000 |
| Balance b/f as at 1 st July | | 588,975 |
| Timing difference for the FY | | (33,418) |
| Deferred Tax Reversal | (551,994) | - |
| Balance as at 30th June | 3,563 | 555,557 |
| 11. Repossessed Farm Properties: | 2020 | 2019 |
| | KES.'000 | KES.'000 |
| Acquisition value as at 1 st July | 268,041 | 259,167 |
| Additions - FPIP | - | 8,874 |
| Disposals - FPIP | (247) | - |
| Balance as at 30th June | 267,794 | 268,041 |

NOTES TO FINANCIAL STATEMENT (Continued)

12 (a). Provisions for doubtful debts

The provision for bad and doubtful loans are done in line with the policy in note (M).

Doubtful debts charges for the year:

| | 2020 | 2019 |
|----------------------------------|----------------|----------|
| | KES.'000 | KES.'000 |
| Loans to Customers: | | |
| General provision | 743,015 | - |
| Total charge for the year | 743,015 | - |

12 (b). Accumulated provisions for doubtful debts

The accumulated provisions are analysed as below:

| | 2020 | 2019 |
|---|----------------|----------------|
| | KES'000 | KES'000 |
| Specific Provisions | | |
| Balance as at 1 st July | 151,614 | 410,715 |
| Interest Concession - Farm Loans | - | (6,963) |
| Recoveries from NPL | (151,614) | (252,138) |
| Balance as at 30th June | - | 151,614 |
| General Provisions | | |
| Balance as at 1 st July | 529,607 | 578,512 |
| Write back of provisions | - | (42,697) |
| Charge for the year | 743,015 | - |
| Interest Concession - Farm Loans | (2,487) | (6,208) |
| Movement in provisions Staff specific | 15,156 | - |
| Movement in provisions Staff General | 15,703 | - |
| Recoveries from NPL | (858,338) | - |
| Balance as at 30th June | 442,656 | 529,607 |
| Staff Loans: | | |
| Specific Provisions | | |
| Balance as at 1st July | 24,638 | 24,638 |
| Movement in provisions during the year | (15,156) | - |
| Balance as at 30th June | 9,482 | 24,638 |
| General Provisions | | |
| Balance as at 1st July | 18,973 | 18,973 |
| Movement in provisions during the year | (15,701) | - |
| Balance as at 30th June | 3,272 | 18,973 |
| Other debts: | | |
| Balance as at 1 st July | 14,133 | 28,368 |
| Write back of provision | (14,133) | (14,234) |
| Balance as at 30th June | - | 14,133 |
| Provisions Summary | | |
| General Provisions | 455,410 | 738,966 |
| Balance as at 30th June | 455,410 | 738,966 |

NOTES TO FINANCIAL STATEMENT (Continued)

| | 2020 | 2019 |
|---|-----------------|-----------------|
| 13 (a). Cash and Bank Balances | KES.'000 | KES.'000 |
| Current accounts | 95,344 | 16,727 |
| Branch Collection Accounts | 7,087 | 33,004 |
| Branch Imprest Accounts | 6,243 | 5,265 |
| Branch Loan Funds Accounts | 39,121 | 46,276 |
| Balance as at 30th June | 147,795 | 101,272 |

| | | |
|---|----------------|-----------------|
| 13 (b). Cash and Bank Balances | | |
| Current accounts | (9,561) | (10,395) |
| Balance as at 30th June | (9,561) | (10,395) |

| | 2020 | 2019 |
|---|-----------------|------------------|
| 14. Short Term Deposits | KES.'000 | KES.'000 |
| Co-operative Bank | 468,391 | 552,434 |
| National Bank of Kenya | 300,000 | 517,011 |
| Kenya Commercial Bank | - | 20,000 |
| Interest receivable | 10,283 | 14,405 |
| Balance as at 30th June | 778,674 | 1,103,850 |

The average effective interest rate on the short term deposits as at June 30, 2020 was 10.8% (2019 9.8%). These are committed funds held in short term deposits at various banks awaiting disbursements to farmers and whose maturity is between one to six months.

NOTES TO FINANCIAL STATEMENT (Continued)

The make – up of bank balances and short term deposits is as follows:

Summarized analysis of the cash and cash equivalents

| Financial institution | Account number | 2020 KES.'000 | 2019 KES.'000 |
|---|----------------|------------------|------------------|
| a) Current account | | | |
| Kenya Commercial bank | Various | 10,843 | 19,861 |
| Co-operative Bank of Kenya | Various | 18,352 | 7,999 |
| National Bank of Kenya | Various | 97,602 | 47,293 |
| Balance as at 30th June | | 126,797 | 75,153 |
| b) On - call deposits | | | |
| National Bank of Kenya | 01400004368304 | - | 200,000 |
| Kenya Commercial bank | MM1635030200 | - | 20,000 |
| Balance as at 30th June | | - | 220,000 |
| c) Fixed deposits account | | | |
| Co-operative Bank | Various | 468,391 | 552,434 |
| National Bank of Kenya | Various | 300,000 | 317,011 |
| Interest receivable | Various | 10,283 | 14,405 |
| Balance as at 30th June | | 778,674 | 883,850 |
| d) Staff car loan/ mortgage | | | |
| National bank of Kenya | 01001061023900 | 1,734 | 1,734 |
| Balance as at 30th June | | 1,734 | 1,734 |
| e) Others(specify) | | | |
| Cash in transit | Various | 496 | 3,496 |
| cash in hand | Various | 223 | 217 |
| MPesa Phone Float | Various | 1,522 | 1,397 |
| MPesa Cash Float | Various | 1,791 | 1,903 |
| M-Banking accounts | Various | 3,404 | 4,881 |
| Vault Cash | Various | 2,267 | 2,096 |
| Balance as at 30th June | | 9,703 | 13,990 |
| Grand total | | 916,908 | 1,194,727 |

NOTES TO FINANCIAL STATEMENT (Continued)

| | 2020 | 2019 |
|---|-----------------|-----------------|
| | KES.'000 | KES.'000 |
| 15. Trade and other receivables | | |
| Rent receivable- Other properties | 64,005 | 70,076 |
| Prepaid expenses | 72,183 | 7,042 |
| Utilities & Other deposits | 2,335 | 2,335 |
| Accounts receivable- Others | 30,770 | 75,622 |
| Prepaid Interest on RSF | 1,730 | - |
| Balance as at 30th June | 171,022 | 155,075 |

| | | |
|---|----------------|----------------|
| Specific Provision for Bad Debts | - | (14,133) |
| Balance as at 30th June | 171,022 | 140,942 |

At June 30, the ageing analysis of the gross trade receivables was as follows:

| | | |
|-------------------------|----------------|----------------|
| Less than 30 days | 20,782 | 14,123 |
| Between 30 and 60 days | 52,112 | 62,112 |
| Between 61 and 90 days | 22,846 | 2,845 |
| Between 91 and 120 days | 10,202 | 2,002 |
| Over 120 days | 65,080 | 73,993 |
| Total | 171,022 | 155,075 |

16. Inventories

These are stocks of stores valued at cost at the end of the financial year.

| | 2020 | 2019 |
|---|-----------------|-----------------|
| | KES.'000 | KES.'000 |
| Stationery & Office Supplies | 3,430 | 1,925 |
| Kitchen, Detergents & Toiletries | 217 | 152 |
| Computer Stationery | 373 | 618 |
| Balance as at 30th June | 4,020 | 2,695 |

NOTES TO FINANCIAL STATEMENT (Continued)

| | 2020 | 2019 |
|-----------------------------------|------------------|------------------|
| | KES'000 | KES'000 |
| 17. GRANTS | | |
| Development | 20,611 | 20,611 |
| Rehabilitation | 18,752 | 18,752 |
| I C A | 2,500 | 2,500 |
| Special Emergency Fund | 3,470 | 3,470 |
| Ministry of Finance | 40,000 | 40,000 |
| IDA 105/344 | 2,168 | 2,168 |
| IDA 692 | 3,335 | 3,335 |
| Vihiga | 700 | 700 |
| North Tetu | 149 | 149 |
| IADP | 278 | 278 |
| Narok Agricultural Dev. Project | 760 | 760 |
| World Bank Credit 4 | 21,925 | 21,925 |
| IDA 1143 KE | 14,529 | 14,529 |
| IDA 1995 KE | 1,594 | 1,594 |
| Japanese Grant SCC Scheme 42 2004 | 769,000 | 769,000 |
| GTZ Grant-2006 | 6,055 | 6,055 |
| GOK Grant Livestock Off Take 2006 | 95,000 | 95,000 |
| GOK Grant Livestock Off Take 2009 | 190,000 | 190,000 |
| GOK Grant Livestock Off Take 2011 | 405,650 | 405,650 |
| GOK Grant Livestock Off Take 2012 | 60,000 | 60,000 |
| GOK Grant 2013 | 700,000 | 700,000 |
| Grants - Food Security | 500,000 | 500,000 |
| GOK Project Subsidy Funds 2016 | 461,375 | 467,518 |
| Grant - Development Vote | 300,000 | 300,000 |
| Balance as at 30th June | 3,617,851 | 3,623,994 |

These are non-refundable grants from the Government of Kenya and other donors to finance specific lines of credit (schemes) and have no associated financial market risks.

18. GOVERNMENT EQUITY

The Government approved the financial restructuring of the Corporation vide Sessional paper No. 1 dated 6th November, 2002. To this effect the Government undertook to inject additional equity to the Corporation amounting to Kshs. 1.3 billion in five equal installments. The fifth and last tranche of Kshs. 260 million was received in 2006/2007 financial year.

The Government also converted loans due from the Corporation amounting to Kshs. 1,387,765,881 into equity bringing the total figure to Kshs. 2,687,765,881. The equity injection was meant to build a sustainable capital base for the Corporation. The financial instrument has no associated financial market risk.

NOTES TO FINANCIAL STATEMENT (Continued)

| | 2020 | 2019 |
|---|------------------|------------------|
| | KES.'000 | KES.'000 |
| 19. Reserves | | |
| (a) General Reserve | | |
| Balance as at 1st July | 1,766,436 | 1,030,715 |
| Waiver of GOK Interest on Loan | - | 570,154 |
| Loss on sale of Kitale house | - | (3,000) |
| Accrued Interest on GOK Loan | - | (40,277) |
| Interest on RSF for previous years | - | (14,651) |
| Reversal of Contract Gratuity | - | 513 |
| Reversal of Tax Liability | 312,924 | - |
| Deposit on rent treated as income | (2,994) | - |
| Deferred Tax Reversal | (551,994) | - |
| Profit after taxation for the year | 290,259 | 222,982 |
| Balance as at 30th June | 1,814,631 | 1,766,436 |

The General Reserve is the undistributed profit from the operations.

| | 2020 | 2019 |
|---|-----------------|-----------------|
| | KES.'000 | KES.'000 |
| (b) Revaluation reserve | | |
| Balance as at 1 st July | 787,618 | 787,618 |
| Balance as at 30th June | 787,618 | 787,618 |

Property and Equipment are stated at cost or as revalued from time to time less accumulated depreciation. The Corporation's policy is to revalue property once every five years. Increase in the carrying amount arising on revaluation are credited to a revaluation reserve. Decrease that offset previous increases of the same assets are charged against the revaluation reserve. All other decreases are charged to the Income Statement.

NOTES TO FINANCIAL STATEMENT (Continued)

| | 2020 | 2019 |
|--|------------------|------------------|
| | KES.'000 | KES.'000 |
| 20. (a) Redeemable Government Loans and Interest: | | |
| Principal | | |
| GOK Restructured Red. Loan | 502,927 | 502,927 |
| Sub Total | 502,927 | 502,927 |
| Interest | | |
| GOK Restructured Red. Loan | 55,672 | 40,277 |
| Sub Total | 55,672 | 40,277 |
| Total | 558,599 | 543,204 |
| 20. (b) Risk Sharing Fund & Interest | | |
| Risk Sharing Fund | 377,215 | 377,215 |
| Interest | - | 14,651 |
| Sub Total | 377,215 | 391,866 |
| Total | 935,814 | 935,070 |
| 20. (c) Agency Funds: | 2020 | 2019 |
| | KES.'000 | KES.'000 |
| Kenya Sugar Board | 722,218 | 722,218 |
| Coffee Dev Fund | 9,516 | 9,516 |
| NIB- Rice rev fund | 100,000 | 100,000 |
| Sub Total | 831,734 | 831,734 |
| Grand Total | 1,711,875 | 1,726,526 |

NOTES TO FINANCIAL STATEMENT (Continued)

| | NOTES | 2020 KES.'000 | 2019 KES.'000 |
|---|---------------|------------------|------------------|
| 21. Payables and Accruals | | | |
| (a) Payables | | | |
| Borrowers credit balances | | 362,003 | 279,198 |
| Unprocessed Loan Receipts | | 1,229 | 1,460 |
| Customers Loan deposits | | 74,650 | 109,932 |
| Balance as at 30th June | | 437,883 | 390,589 |
| (b) Trade and Other Payables | | | |
| Cash security deposits | | 2,905 | 3,930 |
| Insurance receipts | | 7,512 | 16,987 |
| External audit fees | | 3,062 | 1,531 |
| Gratuity | | 15,781 | 19,709 |
| Employees other deductions | | 377 | 317 |
| Accrued Leave days | | 7,773 | 12,498 |
| Other payables | | 117,648 | 45,252 |
| Interest on redeemable loans | | 24,384 | 24,826 |
| Balance as at 30th June | | 179,442 | 125,049 |
| (c) Current Tax payable | | | |
| Balance as at 1 st July | | 384,752 | 328,017 |
| Deferred tax for the year | | - | (33,418) |
| Reversal of Tax Liability | | (312,924) | - |
| Corporate tax for the year | 23 (a) | 28,484 | 90,154 |
| Balance as at 30th June | | 100,312 | 384,752 |

NOTES TO FINANCIAL STATEMENT (Continued)

Analysis of Rent Income& Profit on disposal of assets

| | 2020 | 2019 |
|--|-----------------|-----------------|
| | KES.'000 | KES.'000 |
| 22. (a) Rent Income | | |
| Details are as follows:- | | |
| Development House Income/(Loss) | 39,298 | 25,194 |
| Other Properties net Income | 111,410 | 63,797 |
| Balance as at 30th June | 150,709 | 88,991 |
| 22. (b) Profit/Loss on disposal of assets | | |
| The details are as follows:- | | |
| Motor Vehicles | 4,030 | - |
| Gain on disposal of other assets | 80 | (1,242) |
| Balance as at 30th June | 4,109 | (1,242) |

NOTES TO FINANCIAL STATEMENT (Continued)

INCOME TAX EXPENSE/ (CREDIT)

| 23(a) Current taxation | 2020 KES.'000 | 2019 KES.'000 |
|---|--------------------------------|--------------------------------|
| | NOTES | |
| Current taxation based on the adjusted profit for the year at 30% | 28,484 | 90,153 |
| Current tax: prior year under/(over) provision | - | - |
| Current year deferred tax charge | - | - |
| Prior year under-provision for deferred tax | - | - |
| | 28,484 | 90,153 |

(b) Reconciliation of tax expense/(credit) to the expected tax based on accounting profit

| | 2020 KES.'000 | 2019 KES.'000 |
|---|--------------------------------|--------------------------------|
| Profit before taxation | 318,743 | 313,134 |
| Tax at the applicable tax rate of 30% | 95,623 | 93,940 |
| Current tax: 2010/2011 under-provision | - | - |
| Tax effects of expenses not deductible for tax purposes | (95,623) | 3,100 |
| Tax effects of income not taxable | - | (17,079) |
| Tax effects of excess capital allowances over depreciation/amortization | - | 10,192 |
| Deferred tax prior year over-provision | - | - |
| Rental income tax | 28,484 | - |
| | 28,484 | 90,153 |

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.

| Reference No. on the external audit Report | Issue / Observations from Auditor | Management comments | Focal Point person to resolve the issue (Name and designation) | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|--|--|--|--|-----------------------------------|--|
| 2017/2018 Audit certificate | <p>Property and Equipment The Property and equipment balance of KES 1,142,668,000 as at 30th June 2018 still include as previously reported, twenty nine developed plots measuring 5.3324 hectares valued at KES 191,627,798 and seven undeveloped plots measuring 1.5383 hectares with no ownership documents. In addition, the value of land and buildings with a net book value of KES 940,698,000 as disclosed under note 8 (a) to the financial statements, excludes unvalued parcels of land located in Busia, Nanyuki and Kerugoya whose ownership is in dispute. Although the management has explained that it has continued with the pursuit of title documents for all its properties through Ministry of Lands and the National Land Commission, no tangible results have been achieved as at the date</p> | <p>During the year under review, the Corporation continued with the pursuit of title documents for all its properties through the Ministry of Lands and Urban Development and the National Land Commission and has documentary evidence of the communication with the respective government entities. We endeavor to continue with the pursuit of the same.</p> <p>In addition, the Board approved the engagement of a surveyor to enable the Corporation get all ownership documents of it's properties. The process is at procurement stage.</p> | Chief Manager Legal Services Rose Ochanda | Unresolved. | |

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| Reference No. on the external audit Report | Issue / Observations from Auditor | Management comments | Focal Point person to resolve the issue (Name and designation) | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|--|---|---|--|-----------------------------------|--|
| | of this report. | | | | |
| | <p>Net Medium Term Loans to Customers As reported in the previous years and as disclosed under Note 9 (a) to the financial statements, net medium term loans to customers of KES. 5,602,718 as at 30 June 2018 includes an amount of KES. 22,661,000 advanced to thirteen farmers in Kapsabet. Information available indicates that the Corporation advanced the amount against various collaterals in form of title deeds which appeared fraudulent. Although the management has explained that the Corporation filed six (6) cases against the fraudsters under Eldoret HCC No.100,102,103,104,105 and 106 of 2011 and judgement entered in favor of the Corporation, however as at the date of this report, execution of the warrants issued had not been effected. In the circumstances, the recoverability of the amount of Kshs. 22,661,000 is doubtful.</p> | <p>Further to our previous responses, the Corporation asserts that it employed its internal machinery through the regional and the branch offices to carry out investigation on the traceability of the fraudsters. Presently, the execution of the said warrants is not possible due to their expiry. The Corporation finds itself in a difficult position of applying for fresh warrants as it cannot trace the persons against whom they are supposed to be executed.</p> <p>The Corporation has fully provided for these cases as bad and doubtful debts in our accounts and put them under non-accrual status.</p> | Chief Manager Legal Services Rose Ochanda | Unresolved. | |
| | <p>Current Tax Payable The statement of financial position as at 30th June 2018 reflects current tax payable of KES 328,017,000 which is an increase of KES 170,732,000. Although the management has explained that the</p> | <p>The Corporation engaged services of a tax consultant to assist in determining it's tax liability. During the period under review the Corporation implemented the recommendations arising from the Tax Health Check review.</p> | General Manager – Finance. Mr Tom O. Akeno | Not resolved. | |

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| Reference No. on the external audit Report | Issue / Observations from Auditor | Management comments | Focal Point person to resolve the issue (Name and designation) | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|---|--|--|--|-----------------------------------|--|
| | <p>taxable profit was ascertained in accordance with paragraphs 15 & 16 of the Income Tax Act, Cap 470 of the Laws of Kenya, no sufficient evidence has been provided to show how the current tax figure of KES 328,017,000 and the corporation tax for the year KES 157,285,000, respectively were determined. In addition, the report provided by the Corporation from a consultant hired to determine the current tax liability and corporation tax for the year during year does not confirm both the current tax figure of KES 328,017,000 and the corporation tax for the year of KES 157,285,000 as reported. Consequently, the accuracy of the current tax payable of KES 328,017,000 cannot be confirmed.</p> | | | | |
| <p>Loss of Cash</p> <p>As previously reported in 2015/2016 and earlier years, examination of records between January 2005 and November 2010 revealed that the Corporation lost a sum of Kshs. 35,840,714 through fraudulent transactions involving encashment of 196 cheques by various staff members. The case is still in court and any provisions for the loss that would</p> | <p>This is an ongoing criminal case file no 113/19/2012 court file 1311/2012 Republic of Kenya vs. Lawrence M. Bokoro & Another that is ongoing at the Milimani Law Court.</p> | <p>Chief Manager Legal Services Rose Ochanda</p> | <p>Unresolved.</p> | | |

Agricultural Finance Corporation
 Reports and Financial Statements
 for the year ended 30th June, 2020

| Reference No. on the external audit Report | Issue / Observations from Auditor | Management comments | Focal Point person to resolve the issue (Name and designation) | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|--|---|---------------------|--|-----------------------------------|--|
| | have been necessary in relation to this uncertainty have not been incorporated in these financial statements. | | | | |

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 entity 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.


Managing Director


Chairman of the Board

Date

Date

APPENDIX 1 PROJECT IMPLEMENTED BY THE CORPORATION

No project was undertaken during the period under review.

APPENDIX 2 RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

| Name of the MDA/Donor Transferring the funds | Date received as per bank statement | Nature: Recurrent/Development/Others | Total Amount - KES | Where Recorded/recognized | | | | | Total Transfers during the Year |
|--|-------------------------------------|--------------------------------------|--------------------|------------------------------------|--------------|------------------|-------------|---------------------------|---------------------------------|
| | | | | Statement of Financial Performance | Capital Fund | Deferred Income | Receivables | Others - must be specific | |
| The National Treasury | 22/10/2019 | Grant - others | 600,000 | - | - | 600,000 | - | - | 600,000 |
| The National Treasury | 30/12/2019 | Grant - others | 600,000 | - | - | 600,000 | - | - | 600,000 |
| Total | | | 1,200,000 | - | - | 1,200,000 | - | - | 1,200,000 |

APPENDIX 3 ANALYSIS FOR MOVEMENT IN PROPERTY AND EQUIPMENT FOR CASH FLOW STATEMENT

| Opening balances | Land & Buildings | Motor Vehicles | Furniture & Fittings | Computers | Office and ICT Equip and Others | Software | Control Total |
|--|------------------|----------------|----------------------|----------------|---------------------------------|----------------|------------------|
| Balances as at 30th June 2019 | 1,094,558 | 310,056 | 236,644 | 167,768 | 176,107 | 227,857 | 2,212,990 |
| Less: Accumulated Depreciation | 187,223 | 241,836 | 110,180 | 160,163 | 163,500 | 179,717 | 1,042,618 |
| Opening balances as at 1st July 2019 | 907,335 | 68,220 | 126,464 | 7,605 | 12,608 | 48,140 | 1,170,372 |
| Add: Additions during the year | - | - | 47,966 | 1,190 | 11,512 | 16,948 | 77,617 |
| Depreciation eliminated on disposal | - | 18,410 | - | - | - | - | 18,410 |
| Less: Disposal during the year | - | 18,411 | - | - | - | - | 18,411 |
| Depreciation charge | 21,161 | 29,780 | 35,017 | 3,508 | 6,545 | 27,209 | 123,221 |
| Balances as at 30th June 2020 | 886,173 | 38,439 | 139,413 | 5,287 | 17,575 | 37,879 | 1,124,766 |
| Property and Equipment as at June 2020 | 1,122,232 | | | | | | |
| Intangible Assets as at June 2020 | 48,140 | | | | | | |
| 1,170,372 | | | | | | | |
| Add Purchases | | | | | | | |
| Property and Equipment as analyzed above | 60,668 | | | | | | |
| Intangible Assets | 16,947 | | | | | | |
| 1,247,987 | | | | | | | |
| 1,247,987 | | | | | | | |
| (18,411) | | | | | | | |
| 1,229,577 | | | | | | | |
| (123,221) | | | | | | | |
| 18,410 | | | | | | | |
| Non-Current assets as at 30-06-20 | 1,124,766 | | | | | | |