

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE



REPORT

OF

THE AUDITOR-GENERAL

ON

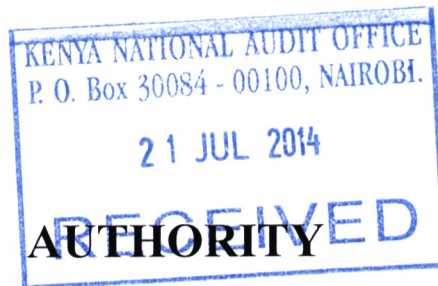
THE FINANCIAL STATEMENTS OF
HORTICULTURAL CROPS DEVELOPMENT
AUTHORITY

FOR THE YEAR ENDED
30 JUNE 2013





HORTICULTURAL CROPS DEVELOPMENT



FINAL ACCOUNTS

FOR THE FINANCIAL YEAR 2012/2013

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HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

AUTHORITY INFORMATION

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

Registered Office and the Principal Place of Business

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

Registered Office

The Nairobi Horticulture Centre

Mazao Road - Off JKIA Road

P. O. Box 42601-00100

NAIROBI – KENYA

Telephone - +254 – 20 - 2088469

Fax. - +254 – 20 –3597356/62

Email: md@hcda.or.ke

Website: www.hcda.or.ke

Bankers

Barclays Bank of Kenya

Queensway House

P. O. 30120 - 00100

Nairobi - Kenya

Co-operative Bank of Kenya

Nairobi Business Centre

Ngong Road

P. O. Box 19555 – 00200

Nairobi - Kenya



HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

Independent Auditors

Auditor General

Kenya National Audit Office

Anniversary towers

P. O. Box 30084

Nairobi –Kenya

Principal Activities

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

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

The Authority developed its Strategic Plan for the period 2009-2013 and during this period it is pursuing six strategic objectives, namely:

- (i) To facilitate the development and review of the policy, legal and institutional framework to facilitate continued growth, development and sustainability of the horticultural industry
- (ii) To facilitate and coordinate the implementation of comprehensive development and marketing strategies for the horticultural industry;



HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

- (iii) To enhance the level of research and development in the horticultural industry through appropriate market information systems
- (iv) To build adequate capacity to provide quality, efficient and effective services to the sub-sector
- (v) To mobilize resources and develop mechanisms for efficient and effective utilization of resources; and
- (vi) To strengthen customer service delivery mechanisms and enhance the corporate image of the Authority.

HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

REGIONAL OFFICES

Office	Location	Box. No.	Telephone
Bungoma	Bungoma Teachers Plaza	P O Box 33 Bungoma	020-2392972
Eldoret	KVDA Plaza	P. O. Box 95, Eldoret	053-2033458
Garissa	DAO	P O Box 38 GARISSA	
Homabay	KOSFIP Office	P O Box 293 HOMABAY	
Iten Office	Keiyo Sacco	P. O. Box 249, Iten	020-3508986
Kajiado	DAO	P O Box 54 KAJIADO	
Kibwezi	Kibwezi Town	P. O. Box 207, Kibwezi	020-2102927
Kisii	DAO	P O Box 52 Kisii	
Kisumu	Mega City	P. O. Box 1516, Kisumu	020-2333615
Kitale	Teachers Sacco Plaza	P. O. Box 3774, Kitale	054-31356
Limuru	Nrb- Nvsh. H/way	P O Box 1264, Limuru	2701806
Machakos	Nrb Mks Road	P. O. Box 1329, Machakos	020 - 8009513
Marigat	Kiki Plaza	P O Box 171 Marigat	
Mombasa	Ambalal Hse	P. O. Box 90273, Mombasa	041-2228516
Mwea	Kimbimbi	P. O. Box 99, Mwea	020-2092970
Kitui	DAO Office	P. O. Box 16, Kitui	044-23211
Nakuru	MOA	P. O. Box 470, NAKURU	020-2313167
Narok	DAO Office	P. O. Box 476, Narok	050-22204
Nkubu	Kariene Mkt	P. O. Box 119, Meru	020-2155006
Nyandarua	Shekainah Building	P O Box 33-20301 MIHARATI	
Sagana	Nrb – Nyeri Rd	P. O. Box 207	060-46051
Taveta	Behind Taveta Mkt	P. O. Box 285, Taveta	043-5352171
Yatta	Sofia Mkt	P. O. Box 50, Matuu	020-2112606
Narumoru	DAO Office - Kiganjo	P. O. Box 164 Kiganjo	
Kericho	Chai Ndege Saaco Kericho		
Busia			
Nandi	KBC Building Kapsabet		



HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

BOARD OF DIRECTORS

NO.	NAME	POSITION
1.	Dr. Ziporah Kittony	Chair – Appointed on 28 th February 2013 Retired on 24 th April 2013
2.	Dr. Alfred K. Serem	Managing Director / Board Secretary
3.	Principal Secretary, State Department of Agriculture, Mrs. Sicily Kariuki, MBS	Member
4.	Principal Secretary, The National Treasury, Dr. Kamau Thuge, EBS	Member
5.	Mr. Robert J. Kigunda	Member – Retired on 9 th September 2012
6.	Mr. Robert Kipkorir	Member
7.	Dr. Stephen Mbithi	Member
8.	Ms. Phyllis Kandie	Member – Retired on 13 th May 2013
9.	Ms. Grace Nyachae	Member
10.	Mr. Stephen Mbugua	Member – Retired on 9 th September 2012
11.	Mr. Kennedy Ngumbao	Member – Retired on 9 th September 2012
12.	Mr. Kennedy Ondieki	Alternate to PS The National Treasury – Retired on 1 st October 2012
13.	Mr. Tom Bonyo	Alternate to PS Ministry of Agriculture – Retired in August 2012
14.	Mr. Eric Murungi	Member – Appointed on 12 th Sept 2012
15.	Mrs. Ann Njoronge	Member – Appointed on 23 rd October 2012



HORTICULTURAL CROPS DEVELOPMENT AUTHORITY
SENIOR MANAGEMENT STAFF

NO.	NAME	POSITION
1.	Dr. Alfred Serem	Managing Director
2.	Ms. Anne Gikonyo	General Manager – Marketing, Strategic Planning and ICT
3.	Mrs. Grace Kyallo	General Manager – Technical and Advisory Services
4.	Mr. James M. Kilonzi	Chief Accountant
5.	Ms. Jane Were	Chief Human Resource Officer
6.	Mrs. Christine Mue	Senior Administration Officer
7.	Mr. Isaac C. Metto	Manager Internal Audit and Risk Management

BOARD OF DIRECTOR'S REPORT

The board of directors submits their report together with audited financial statements for the year ended 30 June 2013, which shows the state of affairs of the Authority.

Financial Results

The trading results and financial report for the year are set out on pages 17 to 29. The operating revenue of the year increased by 0.14% to KShs 391.4 Million while the operating expenses increased by 3.7% from KShs 488.7 Million to KShs. 506.8 Million. The deficit for the year is KShs 115.5 Million against last year of KShs 97.9 Million.



HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

CORPORATE GOVERNANCE AND ETHICS

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

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

The chairman of the board of directors is an independent director. The powers of the chairman and those of the managing director are clearly stipulated and there is no conflict of interest. The board is in the process of formulating a board charter that will stipulate the roles of the directors and their relationship with the management.

The Authority's commitment to corporate governance has seen the directors and the top management team being trained on corporate governance. To ensure that the Authority complies with the standard requirements of corporate governance, it has put in place a risk management policy. This policy identifies the risks facing the Authority and the mechanisms to mitigate the risks.

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



HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

A. Committees to the Board of Directors

There are three committees of the Board:

1. Finance and General Purpose Committee

The committee is charged with the responsibility of ensuring that the financial matters of the Authority are clearly linked with its budget/strategic plan and its core activities. It also deals with staff administrative matters of the Authority to ensure they are within the law and develop policies that will help the Authority attract and retain highly qualified and competent employees.

The following were the members of the committee during the year.

1. Mr. Robert Kigunda
2. Dr. Stephen Mbithi
3. Mrs. Grace Nyachae
4. Mr. Stephen Mbugua
5. Mr. Kennedy Ondieki
6. Mr. Tom Bonyo
7. Mr. Eric Murungi
8. Mrs. Ann Njoronge

2. Audit Committee

In order to enhance the governance structure of the Authority the Audit committee was set up. The mandate of the committee is to provide oversight on the Authority's operations. The committee was instrumental in developing the board charter of the Authority that defines the relationship of the directors and the Authority.

The following were the members of the committee during the year.

1. Mr. Robert Kipkorir
2. Ms. Phyllis Kandie
3. Mr. Kennedy Ngumbao
4. Mr. Kennedy Ondieki



HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

5. Mr. Tom Bonyo
6. Mr. Eric Murungi
7. Mrs. Ann Njoronge

3. Marketing, Technical and Advisory Committee

The Authority's core mandate is in the provision of technical expertise to the industry players and marketing/promotion of the horticulture industry both locally and internationally. This committee is mandated to evaluate policies in

place, their impact to the industry and advise on actions to be taken. The committee has been instrumental in ensuring that the Authority's mandate is achieved and the industry's image is enhanced through appropriate policy formulations.

The following were the members of the committee during the year.

1. Mr. Robert Kigunda
2. Dr. Stephen Mbithi
3. Ms. Phyllis Kandie
4. Mrs. Grace Nyachae
5. Mr. Stephen Mbugua
6. Mr. Kennedy Ngumbao
7. Mr. Tom Bonyo
8. Mr. Eric Murungi
9. Mrs. Ann Njoronge

4. Board and Committee Meetings

The board holds its meeting on a quarterly basis with the committees meeting preceding the full board meeting. However, the board and committees can meet frequently for decision making if need arises.

The table below gives the record of attendance of the HCDA board and its committee meetings for the year ended 30th June 2011.



HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

	Full Board	Finance and General Purpose	Technical and Marketing	Audit and Risk
No. of Meetings Held	6	2	4	4
Dr. Ziporah Kittony	1			
Mr. Robert J. Kigunda	2	1	1	
Mr. Robert Kipkorir	5		1	5
Dr. Stephen Mbithi	4	2		
Ms. Phyllis Kandie	5		2	5
Ms. Grace Nyachae	3	2	2	
Mr. Stephen Mbugua	2	1		
Mr. Kennedy Ngumbao	2			
Mr. Kennedy Ondieki	2	2		1
Mr. Tom Bonyo	1	2	1	1
Mr. Eric Murungi	3	2		2
Mrs. Ann Njoronge	3	1	2	4

B. Risks

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

a) Operational Risks

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

- a) Effective duty segregation,
- b) Staff education,



HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

- c) Authorization levels,
- d) Periodic risk assessment;
- e) Use of internal audit.

Through the periodic risk assessment the Authority realized that the transport hire was generating negative cash flows to the Authority. In an effort to address this risk the Authority took a decision to cease operating the transport facilities. In addition the Authority is in the process of leasing the pack houses and the cold rooms as way of mitigating against the risks posed by continued operation of the facilities.

b) Liquidity Risk

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

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

c) Market Risk

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

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



HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

d) ICT Risks

The Authority is in the process of fully automatic its services by installing the Enterprise Resource Planning System, (ERP) which is web based. The ERP is still new concept within state corporations, so the Authority has no other institution apart from Maritime Company which is currently upgrading its system to the latest in the market, like the one the Authority is currently using to benchmark itself with in terms of successes and negative side. There is a potential risk of vital information being stolen or manipulated by hackers.

To reduce the probability of this occurrence the Authority has entered into a contract with the supplier to support the system for a period of twelve months from the time of implementation, also availability of operational Licenses from the Manufacturer. In addition the Authority has will procure a security system to guarantee the integrity of its data and block unauthorized access once it's in place.

HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

CHAIRMAN'S REPORT

I am pleased to present the Annual Report and Financial Statements for the financial year ended 30th June 2013. The Authority's financial performance declined marginally during the period under review. However this did not affect the Authority's performance in regulating the industry. Through different interventions the Authority contributed to the growth of the sector in line with its mandate of developing and promoting the sector.

During the financial year the Authority continued to offer its regulatory services, specialized extension services and marketing facilitation for smallholder producers who form the backbone of the sector. The sector experienced setbacks in January of 2013 after the European Market imposed new regulations on the Maximum Residue Levels for chemicals. This did not dampen the growth of the sector as the Authority was proactive to ensure that the exports to these markets meet the required standards to avoid a total ban.

The Authority is partnering with other industry stakeholders and government agencies to ensure there is increased investment in the sector. During the year the Authority hosted investors from Netherlands interested in setting up processing plant in the country. The Authority has participated in bilateral trade meetings and exhibitions across the globe e.g. Japan, South Korea, and Russia among others. This is geared towards opening up new markets for the produce as well as diversification of the product portfolio. This will ensure that the growth rate of the sub-sector is sustained over the years.

The Authority is optimistic that the general performance for the year 2013/2014 will be better than 2012/2013. I take this opportunity to appreciate the commitment of the Board of Directors, Management, Staff and other Stakeholders whose efforts have made HCDA to achieve tremendous growth in the horticulture sub sector over the years.

Thank you

BOARD OF DIRECTORS



HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

MANAGING DIRECTOR'S REPORT

It gives me great pleasure to submit the financial report and accounts for the year ended 30th June 2013. The Authority's strategic focus during the year remained to develop, promote, coordinate and facilitate the horticultural industry.

The Agricultural sector in the country has continued to significantly contribute to the country's Gross Domestic Product (GDP) at the rate of 24% with the horticulture sector contributing 33% of the Agriculture's contribution. The horticulture sub-sector is one of Kenya's most important sub sector particularly in terms of rural employment, income generation and foreign exchange earnings. The sector earned KShs 88 billion in foreign exchange for the country in the year 2012.

The Authority has continued to promote value addition of the horticultural crops to increase the shelf life as well as the returns to the farmers. In collaboration with other stakeholders the Authority has developed manuals for different crops to aid in value addition. As an extension of the value addition in the strategic plan ending June 2013 the Authority has prioritized the promotion and setting up of cottage industries in its new strategic plan for 2013-2017.

In promotion of new markets and the new business startups the Authority facilitated more than 50 exporters to attend different international exhibitions during the year. This has enabled the exporters to establish business contacts which will increase the international market share of Kenya's horticultural products. To ensure that the services offered by the Authority are enhanced we will continue to identify new sources of revenue to support the ever-increasing demands of the industry.

Thank you,



GRACE KYALO, (MRS)

Ag. MANAGING DIRECTOR



HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The incumbent Directors submit the report and final accounts for the year ended 30th June, 2013 in accordance with section 13(2) of the Horticultural Crops Development Authority order LN No. 190 of 2011 which requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Authority as at the end of the financial year. The financial statements include a Statement of Financial Position, Statement of Comprehensive Income and Expenditure, Cash flow Statement and Statement of Changes in Equity and other disclosures that the Board deem necessary for the period. It also requires the Directors to ensure the Authority keeps proper accounting position of the Authority. They are also responsible for safeguarding the assets of the Authority.

The directors accept the responsibility for the financial statements, which have been prepared using appropriate accounting polices supported by reasonable and prudent judgment and estimates, consistent with previous year, and in conformity with the International Financial Reporting Standards. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Authority as at 30th June 2013 and of its loss for the year then ended. The directors further confirm the accuracy and completeness of the accounting records maintained by the Authority, which has been relied upon in the preparation of the financial statements as well as on adequacy of the internal financial controls.

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

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



JOSEPHINE OUMA

Ag.CHIEF ACCOUNTANT

DATE 17TH January 2013



GRACE KYALO, (MRS)

Ag.MANAGING DIRECTOR

DATE 17TH January 2013



REPUBLIC OF KENYA

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NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON HORTICULTURAL CROPS DEVELOPMENT AUTHORITY FOR THE YEAR ENDED 30 JUNE 2013

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of horticultural Crops Development Authority set out on pages 16 to 28, which comprise the statement of financial position as at 30 June 2013, the statement of comprehensive income, the statement of changes in reserves and the statement of cash flows 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 and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

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

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15 (2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's

preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

1. Financial Performance

As previously reported, the Authority reported a deficit of Kshs.115,465,000 (2012-Kshs.97,890,000) which increased the general reserve fund negative balance from Kshs.714,937, 000 in 2011/12 to a negative balance of Kshs.832,228,000 in 2012/13. In the absence of clear strategies put in place to reverse the deteriorating trend, it is doubtful that the Authority may in the long run be able to effectively fulfil its mandate without financial assistance from the Government.

2. Property, Plant and Equipment

2.1 Land without title deed

The property, plant and equipment balance of Kshs.779,794, 000 as at 30 June, 2013 includes an amount of Kshs.161,200,000 representing the value of land on which the Authority's depots stand and for which as similarly noted in 2011/2012, the Authority had not obtained title deeds. Further, the ownership of plot LR. No. 209/12490 situated along Mombasa road and measuring 3.5 hectares valued at Kshs.86,000,000 is still in dispute.

In absence of ownership documents for the land indicated above, it has not been possible to confirm whether property, plant and equipment balance of Kshs.779,794,000 as at 30 June, 2013 is fairly stated.

2.2 Lease of Horticultural Produce Handling Facilities

During the year under review, the Authority signed an agreement with Fresh Produce Exporters Association (FPEAK) for the lease of its Horticultural Produce Handling Facilities (HPHF). However, as per the agreement signed in September 2012, FPEAK took over the facilities without any rent / charges payable to the Authority. Further, available information indicates that according to the Ministry of Lands valuation report dated 7 September, 2011, indicated that the Authority should have charged total rent of Kshs.3,770,000 p.a. for lease of these facilities. Further, considering that the facilities were constructed through a JICA Loan to the Government of Kenya and that

Treasury is still servicing the loan facility, the agreement between the Authority and FPEAK is not in the best interests of the Government of Kenya and the public.

3. Creditors and Accruals

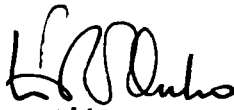
As similarly reported in the previous year, the creditors and accruals balance of Kshs.114,753,000 as at 30 June, 2013 includes an amount of Kshs.61,957,503 in respect of rent accrued and due to Kenya Airports Authority. Although the Authority had proposed to clear the arrears, only Kshs.1,624,788 was paid during the year under review. It has not been explained by management when this long outstanding rent will be settled.

4. Board Expenses

According to Section 10 (1) of the State Corporations Act, Cap 446 Laws of Kenya, the chairman and members of a Board other than the Chief Executive are to be paid sitting allowance out of the funds of the Corporation on attendance of Board/Committee meetings. However, in the year under review that the Authority paid a total of Kshs.421,220 to non-board members in attendance as sitting allowances during board/committee meetings. The Authority was therefore in breach of the law to the extent of these payments.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Authority as at 30 June 2013, and of its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards and comply with Horticultural Crops Development Authority Order, 1995.



Edward R.O. Ouko, CBS
AUDITOR-GENERAL


Nairobi

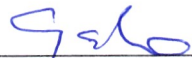
8 August 2014

**HORTICULTURAL CROPS DEVELOPMENT AUTHORITY
STATEMENT OF FINANCIAL POSITION**

AS AT 30TH JUNE 2013

		<u>2012/13</u>	<u>2011/12</u>
	NOTES	KSH "000"	KSH "000"
<u>ASSETS</u>			
<u>Non-Current Assets</u>			
Property, Plant & Equipment	7	779,794	857,180
Intangible Assets	7	30,634	36,649
		<u>810,428</u>	<u>893,830</u>
<u>Investments</u>			
Fixed Deposits A/C	8	30,000	30,000
Government securities	8	66,518	105,780
		<u>96,518</u>	<u>135,780</u>
<u>Receivables & Prepayments</u>			
Accounts Receivables	9a (I)	89,100	77,681
Pre - Payments	9a (ii)	14,550	15,690
Accrued Incomes	9b	1,538	4,325
Utilities deposits	10	2,000	2,000
		<u>107,188</u>	<u>99,696</u>
<u>Cash & Cash Equivalent</u>			
Cash & Cash Equivalent	11	33,008	19,727
Total Assets		<u>1,047,142</u>	<u>1,149,033</u>
<u>EQUITY & LIABILITIES</u>			
<u>Accumulated Government Fund</u>			
GoK Grants	13	1,753,090	1,753,090
General Reserves	14	(832,228)	(714,937)
<u>Accounts Payables</u>			
Creditors and Accruals	15	115,182	98,510
Provisions		11,098	12,370
		<u>126,279</u>	<u>110,880</u>
Total Equity and Liabilities		<u>1,047,142</u>	<u>1,149,033</u>


JOSEPHINE OUMA
Ag. CHIEF ACCOUNTANT
DATED 17TH January 2013


GRACE KYALO, (MRS)
Ag. MANAGING DIRECTOR
DATED 17TH January 2013



HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30TH JUNE 2013

	NOTE	<u>2012/13</u> <u>KShs "000"</u>	<u>2011/12</u> <u>KShs "000"</u>
INCOME			
GoK Recurrent Grants		276,480	300,000
Investment Income	2	8,164	14,030
Other Recurrent Grants		12,347	12,105
Other Incomes	3	80,954	64,703
Profit on Disposal		13,426	
TOTAL INCOME		<u>391,371</u>	<u>390,838</u>
EXPENDITURE			
Employee Costs	4	222,824	216,070
Boards Expenses		9,060	11,376
Motor Vehicle Expenses		12,624	11,075
Insurances	5	18,993	26,559
Rent & Rates		11,158	8,281
Travel & accommodation		33,441	23,367
Communication		5,776	3,180
General Offices Expenses		10,385	11,067
Research & Development		5,257	2,836
Extension Services		21,223	18,595
Professional fees		9,018	3,777
Depreciation		85,768	86,396
Provision for Bad Debts		-	-
Accruals		670	1,064
Auditors Remuneration		400	400
Other Operating Costs	6	60,240	64,684
		<u>506,836</u>	<u>488,728</u>
Net Surplus/(Deficit)		<u><u>(115,465)</u></u>	<u><u>(97,890)</u></u>



HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

STATEMENT OF CHANGES IN RESERVES

FOR THE YEAR ENDED 30TH JUNE 2013

	Shareholders Loans	Government Grants	General Reserves	Total
	KShs. "000"	KShs. "000"	KShs. "000"	KShs. "000"
<u>Year Ended 30th June 2012</u>				
At 1 st July, 2011		1,753,090	(615,652)	1,137,438
				-
Net profit/(loss) for the year	-	-	(97,890)	(97,890)
At 30th June, 2012		1,753,090	(713,542)	1,039,548
As Re-stated		1,753,090	(713,542)	1,039,548
Adjustments			(1,394)	(1,394)
Re-stated 30th June, 2012		1,753,090	(714,936)	1,038,154
<u>Year Ended 30th June 2013</u>				
At 1 st July, 2012		1,753,090	(714,936)	1,038,154
Adjustments			(1,826)	(1,826)
Net profit/(loss) for the year		-	(115,465)	(115,465)
				-
				-
				-
At 30th June, 2013		1,753,090	(832,228)	920,862



HORTICULTURAL CROPS DEVELOPMENT AUTHORITY
STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 30TH JUNE

	2012/13	2011/12
	KShs "000"	KShs "000"
<u>Cash flows From Operating Activities</u>		
Surplus/(Deficit) before taxation & extraordinary items	(115,465)	(97,890)
Adjustments for		
Depreciation	85,768	86,396
Accrued expenses	1,070	1,464
Investment income Earned	(8,164)	(14,030)
Restated Expenses / Income	(1,826)	
Profit on disposal	(13,426)	
<i>Operating surplus before working capital changes</i>	(52,043)	(24,060)
Decrease /(Increase) in Accounts Receivables	(11,418)	(5,285)
Increase/(Decrease) in Accounts Payables	16,672	(725)
<i>Net inflow/(outflow)from operating activities</i>	(46,789)	(30,069)
<u>Cash flows From Investing activities</u>		
Purchase of property and equipment	(2,909)	(9,824)
Disposal of Fixed Assets	13,426	-
Treasury Bills redemption	39,263	-
Investments		(30,000)
Investment Income Realized	10,290	16,406
<i>Net outflow from investing activities</i>	60,069	(23,419)
<u>Cash flows From Financing Activities</u>		
Development Grants		
<i>Net cash from financing activities</i>	-	-
Increase/(Decrease) in cash and cash equivalents	13,281	(53,488)
Cash & cash equivalents at beginning of the period	19,727	73,215
Cash & cash equivalents at end of the period	33,008	19,727

HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

NOTES OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2012

Note 1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The Authority's Financial statements are prepared, in accordance to International Accounting Standards (IAS) and comply with International Financial Reporting Standards (IFRS), based on the Historical cost convention as modified where appropriate under the Accrual basis as a going concern with there being no intention to liquidate or curtail its operations materially.

(b) Revenue

Revenue represents the fair value of the consideration received or receivable for the sales of goods and services, and is stated net of applicable taxes, rebates and discounts.

(c) Cash and Cash Equivalent

For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand, bank balances and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value

(d) Receivables

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

(e) Provisions

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

(f) Employee Benefits

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

HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

(g) Grants

(i) GoK Recurrent (Income)

Government Grants are accounted for under the Income approach where they are recognized as income over the periods received necessary to match them with the related assets which they are intended to compensate on a systematic basis in accordance with IAS 20 - Accounting for Government Grants and Financial Assistance.

(h) Property and Equipment

Plant, Property & Equipment (PPE) were revalued by independent valuers in the period ending 30th June 2007, in line with International Valuation Standards, thus their book values have been adopted and the amendment in the line with IFRS to the revalued amounts & the resultant deficit debited to the profit & loss account in the year of revaluation.

The Authority uses the straight line method of depreciation on a pro-rata basis as per the rates set out below:

Equipment, Furniture & fittings	12.50%
Computers	30.00%
Temporary buildings	20.00%
Motor vehicles	25.00%
Buildings	2.00%
Boreholes	12.50%

Note 2. Investment Income

	<u>2012/13</u> <u>KShs "000"</u>	<u>2011/12</u> <u>KShs "000"</u>
Interest from government securities	4,818	12,018
Interest on fixed deposits	3,346	2,011
	<u>8,164</u>	<u>14,030</u>

Note 3. Other Income

Other operating revenues is represented by

	<u>2012/13</u> <u>KShs "000"</u>	<u>2011/12</u> <u>KShs "000"</u>
Export Cess	62,871	48,437
License Fees	4,086	3,387
Hire Of Cold Room	4,724	8,147
Hire Of Packhouse	2,729	2,359
Hire Of Premises	764	404
Processing Levy	1,588	1,125
Miscellaneous Income	4,193	844
	<u>80,954</u>	<u>64,703</u>

HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

Note 4. Staff Costs

	<u>2012/13</u> <u>KShs "000"</u>	<u>2011/12</u> <u>KShs "000"</u>
Salaries & Wages	149,980	147,744
NSSF Employers Contribution	481	506
Pension Employers Contribution	17,878	17,919
Staff Training	31,245	17,657
Gratuities	815	-
Medical Expenses	20,476	18,050
Casual Labour	1,949	5,164
Terminal Dues	-	9,029
	<u>222,824</u>	<u>216,070</u>

Note 5. Insurances

	<u>2012/13</u> <u>KShs "000"</u>	<u>2011/12</u> <u>KShs "000"</u>
Group Life Insurance	1,061	1,810
Fire & Peril	2,235	2,237
Motor Vehicle	11,882	16,764
Fidelity Insurance	1,250	1,251
Burglary	1,705	1,653
Group Personal Accident	317	2,303
Money Policy	542	542
	<u>18,993</u>	<u>26,559</u>

Note 6. Other Operating Expenditure

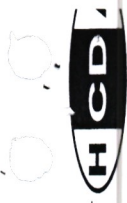
	<u>2012/13</u> <u>KShs "000"</u>	<u>2011/12</u> <u>KShs "000"</u>
Advertisements	5,268	2,662
Fairs, shows & Exhibitions	15,158	17,134
Consultancy	4,655	5,509
General Repairs & Maintenance	5,563	4,235
Contracted services	10,069	15,350
Water & Electricity	9,063	14,843
Staff Welfare	5,116	1,715
Bank Charges	525	240
Trade Licenses	4,475	2,891
Other Exp. (Donations/Licenses)	346	106
	<u>60,240</u>	<u>64,684</u>

HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

Note 7. Property, Plant and Equipment

The Authority is in the process of processing Title Deeds for land on which the regional offices/depots have been constructed on. This process is expected to be concluded after the balance sheet date. This treatment in the accounting books after revaluation has led to the discontinuation of the amortization process which was being carried before the revaluation.

HORTICULTURAL CROPS DEVELOPMENT AUTHORITY



NOTE 7 Cont'd

FIXED ASSETS MOVEMENT SCHEDULE FOR THE YEAR ENDED 30TH JUNE 2012

	LAND	BUILDING	TEMPORARY BUILDING	MOTOR VEHICLES	COMPUTERS	OFFICE EQUIPMENT	PLANT, MACHINERY & EQUIPMENTS	COMMUNICATION EQUIPMENT	TOOLS & EQUIPMENTS	FURNITURE & FITTINGS	BOREHOLE	SOFTWARES	WORKS IN PROGRESS	TOTALS
Cost or Valuation														
At start of year	161,200,000	628,859,836	2,595,375	240,654,792	11,082,369	4,830,176	430,570,000	2,799,300	1,416,441	50,822,470	25,250,041	48,121,529	-	1,608,202,329
Disposal	-	-	-	(32,020,000)	-	-	-	-	-	-	-	-	-	(32,020,000)
Additions	-	-	-	-	1,501,700	-	308,699	-	1,098,800	-	-	-	-	2,909,199
Transfers	-	(553,835)	-	-	-	-	-	-	-	-	-	-	-	(553,835)
At end of year	161,200,000	628,306,001	2,595,375	208,634,792	12,584,069	4,830,176	430,878,699	2,799,300	2,515,241	50,822,470	25,250,041	48,121,529	-	1,578,537,693
Depreciation														
At start of year	-	73,839,391	2,539,225	235,686,854	8,411,168	2,881,494	321,127,905	2,093,169	688,650	36,695,062	18,937,531	11,472,170	-	714,372,619
Charge for the year	-	12,566,120	56,150	1,241,984	1,251,870	603,772	53,859,837	349,913	314,405	6,352,809	3,156,255	6,015,191	-	85,768,307
Revaluation	-	-	-	(32,020,000)	-	-	-	-	-	-	-	-	-	(32,020,000)
Transfers	-	(11,077)	-	-	-	-	-	-	-	-	-	-	-	(11,077)
At end of year	-	86,394,435	2,595,375	204,908,839	9,663,038	3,485,266	374,987,742	2,443,082	1,003,055	43,047,871	22,093,786	17,487,361	-	768,109,849
Net Book Value														
AS AT 30TH JUNE 2013	161,200,000	541,911,567	-	3,725,953	2,921,031	1,344,910	55,890,957	356,218	1,512,186	7,774,599	3,156,255	30,634,167	-	810,327,844
AS AT 30 TH JUNE 2012	161,200,000	555,020,445	56,150	4,967,938	2,671,201	1,948,682	109,442,095	706,131	727,791	14,127,408	6,312,510	36,649,359	-	893,829,710

NOTE: The temporary buildings have been fully depreciated but they are still in use signifying that they Authority is still accruing some economic value from them.

HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

Note 8.	<u>Investment</u>	<u>2012/13</u> <u>KShs "000"</u>	<u>2011/12</u> <u>KShs "000"</u>
	Treasury bills and bonds:		
	Maturing after 91 days	66,518	105,780
	Fixed Deposit Account	30,000	30,000
		96,518	135,780

Note 9a	<u>Accounts Receivables</u> <u>(I) Debtors</u>	<u>2012/13</u> <u>KShs "000"</u>	<u>2011/12</u> <u>KShs "000"</u>
	Debtors	71,663	66,348
		71,663	66,348

Other Receivables

	Staff advances	1,343	989
	Un-surrendered imprests	8,582	7,967
	Deposits	251	120
	Advances to farmers	35	35
	Ruto (Life insurance)	2	2
	M.A.S Mulandi Tax arrears	863	863
	Dr. P. Mwanzia Tax Arrears	1,357	1,357
	Horticultural Research Fund	4,607	-
	Sundry Debtors	397	-
		89,100	77,681

(ii) Pre-Payments

	Medical Insurance	7,537	4,410
	Insurance	6,997	11,265
	Others	15	15
		14,550	15,690

9b	<u>Accrued Income</u>		
	Treasury Bills Interest	918	3,802
	Interest on Deposit A/C	620	523
	Grants - GoK	-	-
		1,538	4,325

Note 10. Utilities Deposits



HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

These are guarantees with our bankers Barclays bank whose beneficiary is the Kenya Power Lighting Company Limited as the Authority is a large power consumer.

	<u>2012/13</u> <u>KShs "000"</u>	<u>2011/12</u> <u>KShs "000"</u>
Utilities Deposits	2,000	2,000
	<u>2,000</u>	<u>2,000</u>

Note 11. Cash and Cash Equivalent

For the purpose of the cash flow statement, cash and cash equivalents comprise the following:

	<u>2012/13</u> <u>KShs "000"</u>	<u>2011/12</u> <u>KShs "000"</u>
Operations Account	5,757	7,930
Cash in Hand	10	70
Call Account	20,795	7,752
Projects account	6,446	3,975
Total Cash & Cash Equivalents	<u>33,008</u>	<u>19,727</u>

Note 12. Loan

The Authority received a loan amounting to KShs 1.5 Billion from the Government of Kenya in 1999 for the establishment of the horticultural produce handling facilities. The Authority was not able to service the loan as per the signed contract and made a request to the government for the conversion of the loan into a grant. The request was approved by the cabinet in June 2012.

Note 13. Grants

(i) GoK Recurrent (Income)

Recurrent grants received and accounted for in line with the policy within the financial year amounted to KShs. 276.48 million only.

(ii) Development

The Authority received development grants in the financial year 2004/05 amounting to KSh. 204,623,905.00. In addition the GoK loan of KShs 1.5 Billion was converted into a grant during the financial year. This grant has been recognized in the statement of financial position as a capital grant and credited to the Government Accumulated Fund

HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

(iii) Other Recurrent Grants

The Authority is collaborating with the Ministry of Agriculture in implementing the Small Holder Horticulture Development Program with funding from the International Fund for Agricultural Development (IFAD). During the year the Authority received KShs. 11.77 Million for implementing the project. In addition the Authority received KShs. 0.859 Million for funding a research by one of its officer's from the University of Kwa Zulu Natal, South Africa.

Note 14.	<u>General Reserves</u>	<u>2012/13</u> <u>KShs "000"</u>	<u>2011/12</u> <u>KShs "000"</u>
	Balance b/f	(714,937)	(615,652)
	Add Surplus/(Deficit)	(115,465)	(97,890)
		(830,402)	(713,543)
	Adjustments	(1,826)	(1,394)
		<u>(832,228)</u>	<u>(714,937)</u>

Note 15.	<u>(i) Creditors & Accruals</u>	<u>2012/13</u> <u>KShs "000"</u>	<u>2011/12</u> <u>KShs "000"</u>
	Accounts Payable	101,420	93,417
	Sundry Creditors	13,038	4,368
	Horticultural Associations	724	724
		<u>115,182</u>	<u>98,510</u>

	<u>(ii) Provisions</u>	<u>2012/13</u> <u>KShs "000"</u>	<u>2011/12</u> <u>KShs "000"</u>
	Provision for Operating Expenses	1,070	2,192
	Provision for Bad Debts	5,481	5,631
	Specific Provision for Bad Debts	4,547	4,547
		<u>11,098</u>	<u>12,370</u>

Note 16. Bad & Doubtful Debts

It is the Authority's policy to provide for bad and doubtful debts at the rate of 9% of the total debtors outstanding as at year end after specific provisions. In addition to the provision for bad debts a specific provision is made for debts that are considered unrecoverable. There are no additional specific or general provisions for the year ending 30th June 2013.



HORTICULTURAL CROPS DEVELOPMENT AUTHORITY

Note 17. Fixed Deposits (Call Account)

These are funds invested in Fixed deposits on call with Co-operative Bank, whose rates of return are not fixed but change from time to time depending on the prevailing market fundamentals.

Note 18. Adjustments

The breakdown of the adjustments is as shown below

	<u>2012/13</u>	<u>2011/12</u>
	<u>KShs "000"</u>	<u>KShs "000"</u>
Expenses Overstatement	-	-
	(1,826)	-
	(1,826)	-

Note 18. Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year. In the current year insurance expenses note has been included (Note 6) to present the different classes of insurance policies for the Authority.

Note 19. Reporting Currency

The Authority's principal activities are carried out in the Republic of Kenya and the accounts are reported in the home currency - Kenya Shilling.

Note 20. Related Party Transactions

The Authority's Board adopted a change in policy on the management of the Horticultural Produce Handling Facilities. In line with the policy the Authority leased out the facilities to the Fresh Produce Exporters Association of Kenya in September 2012 for a period of 15 years. The Chief Executive Officer of the Association is a Director of the Authority hence meeting benchmark set out in the standard to warrant a disclosure in the Financial Statements. As per the agreement the Association will not pay the Authority for use of the facilities until a time when it is able to make profits from the use of the facilities.

Note 21. Contingencies

The Authority is involved in various legal proceedings which are still pending in different courts within the country. The outcome of these legal cases may have a significant effect on the operations of the Authority because of the subject matter of the cases. The Authority may be required to pay legal fees which are in the range of KShs. 50 Million.



