REPORT OF THE AUDITOR-GENERAL ON AGRICULTURE AND FOOD AUTHORITY FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of Agriculture and Food Authority set out on pages 30 to 59, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015.

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

In addition, as required by Article 229(6) of the Constitution, I have not been able to obtain sufficient appropriate audit evidence to confirm that public money has been applied lawfully and in an effective way.

Basis for Disclaimer of Opinion

1. Property, Plant and Equipment

1.1 Rehabilitation of Kahawa House

As reported in the previous year, a consultant submitted on 8 February 2001 a fee note of Kshs.56,742,130 in respect of a contract for studying and assessing the rehabilitation works that would be necessary and required for Kahawa House. However, information available indicates that the amount was not paid as the Board was convinced that no work was carried out to warrant a charge of Kshs.56,742,130.

Consequently, the consultant sued the defunct Coffee Board of Kenya for non-payment of the fee demanded. A review of the matter during 2016/2017 financial year revealed that the suit was yet to be decided upon by the High Court since 19 March 2004 (Case No. HC 152 of 2004). The management has not explained why rehabilitation was necessary considering that the house was refurbished in 1998/1999 at a cost of Kshs.38 million. In addition, the management has not disclosed the amount of Kshs.56,742,130 as a contingent liability in the notes to the financial statements.

1.2 Ownership of Property, Plant and Equipment

1.2.1 The statement of financial position as at 30 June 2017, reflects a balance of Kshs.3,672,606,000 under property, plant and equipment, which includes several properties whose ownership has not been established as explained below:

(i) The balance of Kshs.3,672,606,000 includes an amount of Kshs.72,000,000 in respect of land measuring 236.35 hectares in Thika, Kiambu County. However, the documents for land measuring 137.2 hectares out of the 236.35 hectares have not been provided for audit review. It has not been possible therefore to confirm ownership status of the land measuring 137.2 hectares.

(ii) The balance also includes a motor vehicle registration number KBG 517C, which was registered in the name of Coffee Research Foundation.

1.2.2 Included also in the property plant and equipment balance of Kshs.3,672,606,000 is an amount of Kshs.161,200,000 representing the value of land on which the defunct Horticultural Crops Development Authority depots stand and for which title deeds had not been obtained. Further, the ownership of Plot L.R No.209/12490 situated along Mombasa road, measuring 3.5 hectares and valued at Kshs.86,000,000 is still in dispute.

1.3 Valuation of the Property, Plant and Equipment

(i) The property, plant and equipment balance of Kshs.3,672,606,000 excludes land of undetermined value in Athi River Plot No.24848 – Mavoko Municipality, which was allocated to the defunct Kenya Sugar Board on 18 April 1995. It is not clear if and when the land will be valued for inclusion in the financial statements.

(ii) The balance also excludes seven acres of unvalued land in Mtwapa that had been allocated to the defunct Kenya Coconut Development Authority by the defunct Kenya Agricultural Research Institute. In addition, the ownership had not been transferred by the Kenya Agricultural Research Institute by the time the Authority ceased to exist upon the commencement of the Crops Act, 2013.

(iii) During the year 2000, the defunct Horticulture Development Corporation constructed a depot in Machakos on L.R. No. 1491/1/2/R at a cost of Kshs.55,677,000, which was one of the seven satellite depots meant for horticultural produce handling facilities (HPHF), which were funded by both the Governments of Kenya and Japan. Contrary to the original agreement with the government that the facilities' sole purpose was to pre-cool horticultural produce and provide support of market access for smallholders, the facility is currently occupied as an office by the County Government of Machakos. No compensation has been granted to the Authority for the conversion of its facility.

(iv) Further, a review of available records revealed that the defunct Coffee Board of Kenya carried out a revaluation exercise in the year 2010, which combined the value of land on which the Coffee Plaza and Kahawa House are located with the value of buildings with a net value of Kshs.1,568,643,000 as at 30 June 2015. This treatment differs with the Authority's policy on classification of property, plant and equipment as the two assets have been classified separately as disclosed under Note 35 to the financial statements. In view of the above, it has not been possible to determine whether the depreciation charged is consistent with the depreciation policy as disclosed under Summary of Significant Accounting Policies, Note 2(e) to the financial statements, which provides for a rate of 2.5% p.a. on buildings and none on land.

(v) In addition, the Authority owns a piece of land reference No. 209/10537 measuring 8.1 hectares located in Embakasi which was previously owned by the defunct Coffee Board of Kenya since October 1986. This land has, however, remained unutilized and is prone to illegal acquisition by land grabbers.

(vi) Additional information shows that as at 30 June 1993, the defunct Cotton Board of Kenya had property, plant and equipment with a net book value of Kshs.210,759,785 and investments in Meru Ginnery Ltd of Kshs.13,940,758. The management has, however, not satisfactorily explained how these property, plant and equipment were accounted for upon the creation of the defunct Cotton Development Authority.

1.4 Property with a Court Case

The property, plant and equipment balance of Kshs.3,672,606,000 as at 30 June 2017 excludes the value of Riverside Estate property L.R. No. 209/4389/3 where the defunct Cotton Development Authority's head office was located. According to information available, the property belonged to the defunct Cotton Board of Kenya and has been charged against a bank loan that the Board failed to service. The bank subsequently sold the property for Kshs.21.5 million through a public auction held in November 2000. Further, records show that the purchaser of the property paid the bank an amount of Kshs.8,375,000 representing the balance of the outstanding loan, whereupon the bank released the documents relating to the property to the purchaser. The purchasers thereafter, and before clearing the balance of Kshs.13,125,000 sought to transfer the title to the property in his name. The Board however declined to execute the transfer documents and as a result and shortly thereafter, the purchaser filed a case in the High Court in November 2008. Although the case was determined on 25 September, 2015, the Authority has not obtained the title deed to the property and consequently the ownership could not be confirmed.

1.5 Idle Equipment

The Authority constructed a staff recreation Centre that included a gym and a cafeteria at the Sugar Directorate Offices in Upper Kabete in the year 2013/2014 at a cost of Kshs.75,534,000. During the year 2016, the Authority procured and installed gym equipment at a cost of Kshs.21,097,442 for use in the Centre. The equipment has however not been commissioned to date and is lying idle. In addition, no gym instructor has been hired to facilitate training and safety of the staff who will be using the facility. In the circumstances, the Government has not received value for money on the facility.

1.6 Presentation and Disclosure of the Property, Plant & Equipment

(i) The property, plant and equipment balance of Kshs.3,672,606,000 as at 30 June 2017 includes value of temporary structures of Kshs.519,000 and an amount of Kshs.151,060,000 representing the cost of motor vehicles that had been disposed of by the defunct Horticultural Crops Development Authority in the year 2014.

(ii) It had been noted that under the defunct Tea Board of Kenya, motor vehicles were being depreciated on a straight line basis while other assets were being depreciated on a reducing balance method. No reason has been given for this treatment. In addition, it was noted that other plant, equipment and machinery were being depreciated at higher rates than normal rates and at different rates depending on location. Buildings were being depreciated at 2.5% in Dagoretti and Mombasa, 3.3% in Kericho and 20% at Jamhuri Park. No explanation has been provided for this inconsistency.

1.7 Delay in Completion of Project

(i) The Authority Contracted M/S Twiga Construction Company for construction of an office Building, for the Tea Board of Kenya (Now Tea Directorate) at a contract price of Kshs.343,000,000 on 18 December, 2012. The Form of Agreement indicated that the contract would be for Building and Civil Works and the duration of the contract would be sixty-five weeks from 17 January, 2013 to 18 April, 2014.

(ii) Although there have been extensions to the contract and the Management has explained there was change in scope of works, the contractor has not completed the works to date as stipulated in the contract agreement. This is despite the direction by the National Treasury vide their letter Ref. DGIPE/A/1/10 dated 19 July, 2016 that all on-going projects were to be completed in 2016/2017 financial year.

(iii) The contractor has not paid damages for non-completion of the works within the stipulated period.

(iv) Further, the addendum to the contract was not signed by the contractor and hence the revised contract sums of Kshs.399,858,465 and Kshs.422,300,450 as indicated in the penultimate certificates No 21 and No 22 respectively are not supported by any valid agreement. The actual amount of the revised contract sum is therefore not clear.

Under the circumstances, it is not possible to confirm whether the property, plant and equipment balance of Kshs.3,672,606,000 as at 30 June 2017 reflected in the financial statements of the Authority is fairly stated.

2. Investment in Subsidiary

As previously reported, the statement of financial position as at 30 June, 2017 reflects an amount of KShs.389,000 under investments, which as disclosed in Note 34 to the financial statements relates to investments on coffee exchange shares. However, the investment in subsidiary of Kshs.389,000 differs with the amount of Kshs.148,200 reflected in the share certificates resulting in an unexplained difference of Kshs.240,560. In the circumstances, the value of investments disclosed in the financial statements could not be confirmed.

3. Cash and Cash Equivalents

3.1 Opening Balances and Accuracy of Cash and Cash Equivalents

The statement of financial position as at 30 June 2017 reflects an amount of Kshs.2,825,458,000 under cash and cash equivalents, which includes, as disclosed under Note 22 to the financial statements, cash on hand and in transit, short-term deposits, and collateral deposits. As reported in the year 2014/2015, the financial statements cash and cash equivalents balance for the year 2013/2014 differed with the supporting documents by Kshs.14,621,665. Although management has since passed a prior year adjustment to clear the amount from the cashbook, no supporting documents were provided to explain how the amount had been written off. The same cash and cash equivalents was net of a negative petty cash balance of Kshs.249,000 that had not been explained at the year end. In addition, cash in hand and imprest of Kshs.2,003,000 and Kshs.49,000 as at 30 June 2015 respectively have not been supported by any verifiable documentary evidence to date.

3.2 Unsupported Cash Balances

As reported in the previous year, included in the cash and cash equivalents figure of Kshs.2,825,458,000 as at 30 June 2017 are bank account balances relating to previous years whose supporting documents have not been provided for audit review as analyzed below:

Directorate	Account Name	Account Numbers	Account balance Kshs.	Supporting documents not provided
Sugar	Rachier & Amollo & Nzamba Kitonga Advocates	Not applicable	8,581,797	Documents to support funds held
Sugar Directorate	NIC Bank	1001316447	243,000	Bank Confirmation Certificate
	ECO Bank Kenya LTD (BOCO Deposit)	Not availed	5,000,000	Bank Confirmation Certificate
	Chemilil- On-call Acc.	Not availed	10,913,125	No supporting document
	Euro Bank	Not availed	52,237,000	Bank Confirmation Certificate
	TOTAL - Kshs		**66,061,797**	

3.3 Bank Reconciliation

As also reported in the previous year, the Horticultural Crops Directorate's, Barclays Bank of Kenya main account No.094-5019115 bank reconciliation statement included salaries posted twice amounting to Kshs.7,901,812. Further, a review of the bank reconciliation statement revealed that the net salaries figure posted twice of Kshs.7,901,812 included payments of Kshs.4,374,496 that were not of the personnel emoluments in nature. In addition, a payment voucher No. 2137 for an amount of Kshs.11,575,468 paid to CIC Insurance had not been posted to the cash book since December 2013. No action had been taken to correct the position as at 30 June 2017.

3.4 Short Term Deposits

The short term deposits of Kshs.2,271,055,000 as at 30 June 2017 as disclosed in Note 22 to the financial statements, include an amount of Kshs.52,237,000 in respect of deposits that had been placed in Euro Bank, which was placed under receivership in the 1990s. Although full provision has been made in these financial statements for the deposits in Euro Bank, the Authority is yet to recover any money from the receiver manager of the bank.

Further, the short term deposits include an amount of Kshs.8,581,797 under the name of Rachier & Amollo & Nzamba Kitonga Advocates deposited in an escrow account by orders of the court. The National Treasury vide their letter Ref. DGIPE/A/1/10 dated 19 July, 2016 recommended that the Authority provide details of this account to both the Ministry of Agriculture and The National Treasury. However, no supporting documentation has been provided to show the nature or the existence of the amount.

In view of the above, it has not been possible to confirm the accuracy of cash and cash equivalents balance of Kshs.2,825,458,000.

4. Receivables from Exchange Transactions

(i) The statement of financial position as at 30 June 2017 and as disclosed under Note 23 to the financial statements reflects an amount of Kshs.3,335,913,000, (2016 - Kshs.3,367,586,000) under receivables from exchange transactions. As reported in previous years, the defunct Sugar Development Fund and Horticultural Crops Development Authority, balances of receivables from exchange transactions amounted to Kshs.148,166,000 and Kshs.92,506,000 respectively. Although a provision had been made for the long outstanding amount of Kshs.148,166,000, it still remained uncollected as at 30 June 2017.

(ii) In addition, the amount of Kshs.92,506,000 outstanding in the books of the defunct Horticultural Crops Development Authority included trade debtors totalling Kshs.63,540,000 which was not reconciled to the supporting documents figure of Kshs.63,156,493. The trade debtors also included unexplained credit balances totalling Kshs.6,097,068. Further, the trade receivables for the defunct Coffee Board of Kenya amounting to Kshs.2,569,375,479 had been written off in 2010/2011 without necessary approvals from the Parent Ministry and the National Treasury.

(iii) In addition, included in the trade and other receivables from exchange transactions balance of Kshs.3,335,913,000 as at 30 June 2017 and as disclosed under Note 23 to the financial statements is an amount of Kshs.3,318,809,000 relating to trade debtors (levy arrears) as at 30 June 2017, which has been outstanding for a long time. Although a specific provision of Kshs.126,417,000 has been made in these financial statements in respect of the levies, no action is being taken to recover the levy arrears. In addition, the management has not explained why the liability was not transferred to the Commodities Fund on operationalization of the Crops Act of 2013.

(iv) The balance further includes rent debtors balance of Kshs.15,739,000. However, as reported in the previous year, the validity of a balance of Kshs.6,000,000 in respect of Horticultural Crop Directorate cannot still be ascertained since no documents have been provided so far for audit review.

(v) As also reported in the previous year, the trade debtors balance for 2014/2015 included an amount of Kshs.69,352,000 in respect of Horticultural Crop Directorate, while the ledger showed a balance of Kshs.63,540,000 resulting in a difference of Kshs.5,812,000. Similarly, in 2014/2015, the trade debtors balance also included an amount of Kshs.13,340,000 in respect of Tea Directorate while the ledger reflected Kshs.15,599,103, resulting in a difference of Kshs.2,259,103. Although management has effected journal entries to equate the two balances, no supporting documentation or reconciliations were provided to confirm how the decision to equate the balances was arrived at.

(vi) The trade and other receivables from exchange transactions in the year 2015/2016 included prepayments balance of Kshs.15,959,000. However, a balance of Kshs.5,569,000 in respect of Horticultural Crop Directorate relating to the previous year lacks verifiable documentary evidence. Although management has proposed journal entries to write off the prepayments, no documentary evidence was provided to indicate the nature of the prepayment or the reasons for its being written off.

(vii) The financial statements figure of Kshs.2,825,458,000 for receivables from exchange transactions is not supported with ageing analysis of debtors to show the periods for which they have been outstanding so as to ascertain the recoverability of the balances.

(viii) As reported in the previous year, the financial statements as at 31 July 2014 of the defunct Coffee Board of Kenya, Sugar Development Fund and Kenya Sugar Board reflected amounts of Kshs.17,194,000, Kshs.1,837,694,000, and Kshs. 35,130,000 respectively relating to receivables from non-exchange transactions. The amounts had been outstanding for a long time and further, could not be reconciled to supporting documents. In addition, the provision for bad debts made on these balances was inadequate. This matter has remained unresolved to date.

5. Receivables from Non-Exchange Transactions

(i) The statement of financial position as at 30 June 2017 reflects an amount of Kshs.20,232,000 under receivables from non-exchange transactions, which includes staff debtors amounting to Kshs.14,320,000 as disclosed under Note 24 to the financial statements. The latter includes unsurrendered staff imprests from the defunct Coffee Board of Kenya amounting to Kshs.2,270,769 which have been outstanding since 2013 contrary to the provisions of Section 71 (4) of the Public Finance Management Act, 2012 on cash advanced as imprest.

(ii) As reported in 2014/2015, staff debtors balance for that year in respect of Tea Directorate included a balance of Kshs. 3,422,000 which differed with the figure of Kshs.3,507,725 shown in supporting documents resulting in unexplained and unreconciled balance of Kshs.85,725. Further, the receivables from non- exchange transactions balance for 2014/15 included an amount of Kshs.22,215,000 disclosed as staff advances out of which an amount of Kshs.1,271,000 relating to the Horticultural Crop Directorate lacked verifiable supporting documents. These matters have similarly remained unresolved.

Consequently, the completeness and accuracy of receivables from non-exchange transactions balance as at 30 June 2017 could not be confirmed.

6. Long Term Receivables from Non-exchange Transactions

The statement of financial position as at 30 June 2017 reflects an amount of KShs.131,375,000 under long term receivables from non-exchange transactions. This amount relates to a loan advanced to the Kenya Planters Cooperative Union (KPCU) by Government of Kenya through the defunct Coffee Board of Kenya for onward lending to farmers. However, KPCU is under receivership and no provision has been made in these financial statements to recognize losses that may arise if the KPCU is finally liquidated.

7. Trade and Other Payables from Exchange Transactions

(i) The statement of financial position as at 30 June 2017 reflects a balance of Kshs.849,568,000 under trade and other payables from exchange transactions. As disclosed under Note 26 to the financial statements, this balance comprises of trade payables, payments received in advance, project funds, third party payables, other payables and overdrawn bank accounts. Further, as reported in the previous year on defunct entities that were merged to form Agriculture and Food Authority, there were long outstanding balances in the books of the defunct Sugar Development Fund amounting to Kshs.5,000,000 and Kshs.3,062,000 in respect of Boco Tractor lease deposit and Fintech Kenya that had been outstanding for considerably a long period. In addition, an amount of Kshs.2,636,872,172 relating to the defunct Coffee Board of Kenya had been written off as an old balance on the recommendation of a contracted consultant. However, approval for the write-off from both the Parent Ministry and the Treasury were not provided for audit review. Therefore, the propriety of the write-offs effected in the 2010/2011 financial year could still not be confirmed.

(ii) In addition, the trade and other payables from exchange transactions balance of Kshs.849,568,000 includes trade and other payables amounting to Kshs.106,740,000 brought forward from the books of the defunct Horticultural Crops Development Authority. The latter amount differed with the supporting schedules balance of Kshs.96,156,448 resulting in un-reconciled variance of Kshs.10,583,552. In addition, a balance of Kshs.1,500,038 has remained outstanding for more than five years. Further, the trade and accruals balance in 2015/2016 included an amount of Kshs.5,194,331 relating to debit balances which were netted off contrary to the International Public Sector Accounting Standards (IPSAS) No.1, which states that assets and liabilities, and revenue and expenses may not be offset unless off setting is permitted or required by another IPSAS. The creditors balance also excluded an amount of Kshs. 400,000 being audit fee owing to the Office of the Auditor-General.

Consequently, the accuracy and completeness of the trade and other payables from exchange transactions balance of Kshs. 849,568,000 could not be confirmed.

8. Lease of Horticultural Produce Handling Facilities

As previously reported under the defunct Horticultural Crops Development Authority, the Authority signed an agreement with Fresh Produce Exporters Association of Kenya (FPEAK) for the lease of its Horticultural Produce Handling Facilities (HPHF). However, as per the agreement signed in September 2012, FPEAK took over the facilities without any rent/charges payable to the Authority. Further, available information indicates that according to the Ministry of Lands valuation report dated 7 September, 2011, the Authority should have charged total rent of KShs.3,770,000 per annum 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 interest of the Government of Kenya and the public. Available information also indicates that at the time of agreement, a member of the Board of Horticultural Crops Development Authority was also an official of the Fresh Produce Exporters Association of Kenya (FPEAK).

9. Borrowings

The statement of financial position as at 30 June 2017 reflects an amount of Kshs.735,230,000 under non-current liabilities and an amount of Kshs.68,933,000 under current portion of borrowings. The total loan balance relates to two amounts advanced to the defunct Coffee Board of Kenya, Kshs.560,000,000 GOK loan and an amount of Kshs.225,000,000 that had been advanced to the defunct Coffee Board of Kenya for onward lending to farmers through KPCU. The GOK loan continues to accrue penalties due to failure to pay the loan installments. The amount of loan outstanding in the account of KPCU amounting to Kshs.131,375,000 also remains outstanding in the books as KPCU has been unable to meet its obligations.

No documents and records have been provided on these loans and consequently, the movement of the loan balances could not be confirmed.

10. Long Outstanding and Unsupported Balances

As was also reported in the previous year, the audit of the defunct Horticultural Crops Development Authority for the year ended 31 July 2014 revealed certain balances in the financial statements that were at variance with balances reflected in supporting documents or were not supported at all. No supporting documentation or explanation was provided for payment in respect of security of Kshs.3,779,946, provision of Kshs.11,098,000, export licenses of Kshs.2,946,000, employees costs variance of Kshs.459,622, and GOK recurrent grant variance of Kshs.20,515,000.00 Further, the surrendered imprests, allowance to farmers, life insurance, tax arears, horticultural research fund prepayments, interest on fixed deposit amounts and depreciation charges, all amounting to Kshs.114,667,000 were not supported with documentary evidence or any other workings.

These matters were not resolved in the year under review. Under the circumstances, the accuracy and completeness of the opening balances of the accumulated surplus for the Authority could not be confirmed.

11. Disbursements to Other Institutions Expense

The statement of financial performance for the year ended 30 June 2017 reflects an expenditure of Kshs. 2,000,000 in respect of disbursements to other institutions and as disclosed under Note 18 to the financial statements. The comparative figure of Kshs.2,210,874,000 is an adjustment from the amount that had been disclosed in the year ended 30 June 2016 of Kshs.2,246,900,000. However, no documentary evidence has been provided to support the expenditure of Kshs2,246,900,000. The resulting adjustment of Kshs. 36,026,000 was also not supported with documentary evidence. Consequently, the validity of the amount disclosed of Kshs.2,210,874,000 could not be confirmed.

12. Grant Reserves Account

12.1 Expenditure from Grant Reserves

The statement of changes in net assets reflects an amount of Kshs.4,052,334,000 under grants reserve as at 30 June 2017, which includes a debit of

Kshs.1,161,277,000 during the year under review. The latter amount further includes Kshs.12,764,922 - used in the construction of bridges, Kshs.397,473,383 – for Cane Testing Unit (CTU) in various sugar companies, Kshs.99,327,482 - grants to a sugar company, Kshs.548,613,716 - loans to five sugar companies , Kshs.100,013,757 - fertilizer subsidies and Kshs.3,084,538 - for reversal of some prior year receipts. These grants reserve were created from the defunct Sugar Development Fund, and were to be transferred to a Commodities Fund upon commencement of the Crops Act, 2013.

The Authority has not explained the reasons for the failure to comply with Section 9 (1) of the Crops Act, 2013 which stipulates that 'there is established a fund to be known as the Commodities Fund' and Section 10(1) of the same Act, which states that 'the fund shall be used to provide sustainable affordable credit and advances to farmers', as it continues to spend the amount of the grants reserve on loans, grants and other expenditure.

12.2 Loans to Sugar Companies

(i) During the financial year 2014/2015, 2015/2016 and 2016/2017 the Authority disbursed loans amounting to Kshs.1,915,619,021, Kshs.671,182,067 and Kshs.548,613,716, respectively to sugar companies through its Sugar Directorate.

(ii) Examination of records available indicates that the loans aside from being unsecured, were disbursed without the authority of the Board.

(iii) In addition, the loans were disbursed from the current grants reserve, which was created from the defunct Sugar Development Fund.

(iv) It has also not been possible to confirm the amount disbursed to each of the sugar companies. No documentary evidence has been provided to confirm that due diligence was done on the sugar companies before the loans were issued. It is also not clear why the Authority has continued to disburse loans to entities which are known for defaulting in repayments.

(v) Further, the amounts disbursed by the Authority in the three years, all totalling Kshs.3,135,414,804 have not been captured in these financial statements, as a result, the accounts receivables as at 30 June 2017, are understated by an amount of Kshs.3,135,414,804.

13. Prior Year issues on Revenue

13.1 Fines, Penalties and Levies

Note 5 to the financial statements reflects an amount of Kshs.313,058,000 (2016 - Kshs.3,563,305,000) in respect of levies, licences, permit, cess and other levies.

However, no documentary evidence had been produced for verification to confirm the accuracy of the figure of Kshs. 3,563,305,000 relating to the previous year.

13.2 Loss on Sale of Assets

Note 20 to the financial statements reflects a nil amount (2016 – Kshs.33,000) in respect of a loss on sale of assets. However, no workings have been provided to show how the loss on disposal of assets was arrived at. Consequently, the loss of Kshs. 33,000 for the year ended 30 June 2016 could not be confirmed.

13.3 Gain / (Losses) on Foreign Exchange

Note 21 to the financial statements shows an amount of Kshs.1,203,000 (2016 - Kshs.6,767,000) described as gain on foreign exchange transactions. However, no documentary evidence has been produced to show how the gain of Kshs.6,767,000 relating to the previous year was determined.

13.4 Finance Income - External Investments

The statement of financial performance reflects an amount of Kshs.166,095,000 (2016 - Kshs.391,433,000) for the year ended 30 June 2017 under finance income – external investments and as disclosed under Note 7 to the financial statements. The amount relates to interest income from Government securities. The management has not provided evidence to show how Kshs.391,433,000 earned in the year 2016 was determined. In the absence of supporting documents or explanation, it is not possible to confirm the accuracy and completeness of Kshs.391,433,000 described as Finance Income – External Investment in 2016.

13.5 Finance Income – Outstanding Receivables

The statement of financial performance reflects revenue from exchange transactions of Kshs. 310,324,000 (2016 - Kshs. 528,696,000) for the year ended 30 June 2017. The amount relating to the previous year of Kshs. 528,696,000, includes an amount of Kshs. 20,726,000 described under Note 8 to the financial statements as finance income – outstanding receivables. However, no supporting documents or explanations have been provided for the figure. Consequently, its validity could not be ascertained.

13.6 Other Income

The statement of financial performance reflects an amount of Kshs.310,324,000 (2016 - Kshs.528,736,000) under revenues from exchange transactions, which in the previous year included other income of Kshs.13,400,000 (revised in the current year to Kshs.13,263,000) as disclosed under Note 9 to the financial statements.

However, the management has not supported the figure of Kshs.13,400,000 with verifiable documentary evidence.

Consequently, the occurrence, completeness and accuracy of other income of Kshs.13,400,000 for the year ended 30 June 2016 could not be ascertained.

14. Unsupported Expenses

The statement of financial performance for the year ended 30 June 2015 reflected an amount of Kshs.2,101,525,000 under expenses. A review of available records, however, revealed variances between the figures that were reflected in the financial statements and the figures reflected in the ledger as detailed below:

Item	Sub-Item	Financial statements Kshs	Ledger Kshs	Difference Kshs
Regulation & Compliance	Inspection & Surveillance	19,276,000	19,058,894	217,106
	Development & Review of Standards	5,744,000	-	5,744,000
Technical Advisory	Collaboration & Coordination	22,146,000	18,481,708	(3,664,292)
	Stakeholders Capacity building	45,119,000	-	45,119,000
	Crop Senses	3,663,000		3,663,000
Market Research & Development	Market Research & Development	10,036,000	7,677,834	2,358,166
	Value addition & Promotion	35,510,000	-	35,722,000
Repairs and maintenance	Repairs and maintenance	35,510,000	36,996	(1,486,041)
Totals		**177,296,000**	**82,214,477**	**95,081,513**

In view of the above unexplained variances, the accuracy and completeness of surplus brought forward for the year ended 30 June 2017 could not be confirmed.

15. Operating and Administrative Costs-Security Service Providers

Note 17 to the financial statements discloses an amount of Kshs.639,325,000 (2016 – Kshs.687,566,000) described as operating/administrative expenses for the year ended 30 June 2017. However, the brought forward balances included an amount of Kshs.5,057,136 paid to a security firm for providing extra security services to HCDA’s six depots. However, the management has not provided documentary evidence to date to confirm that the firm was contracted in compliance with Section 29(3) of the Public Procurement and Disposal Act, 2005. In addition, no explanation has been provided for terminating the contract of the previous firm. In the absence of evidence, the Authority was in breach of the law.

16. Accuracy of the Financial Statements

The statement of financial position as at 30 June 2017 reflects a balance of Kshs.7,925,918,000 in respect of total net assets and liabilities. However, it has been noted that corresponding figures as at 30 June 2015 for the under listed items differed with the audited figures in the financial statements for the year ended 30 June 2015 as detailed below:

Assets	**2015/16 Financial Statements Comparative Figures (Kshs'000) for the year ended 30 June 2015**	**2014/15 Financial Statements Audited Figures (Kshs'000)**	**Variance Kshs'000**
Current Assets Cash and cash equivalents	5,684,755	2,221,047	3,463,708
Receivables from exchange transactions	2,556,774	137,110	2,419,664
Receivables from non-exchange transactions	34,055	195,949	(161,894)
Non-current assets Property, plant and equipment	3,770,249	3,827,055	(56,806)
Investments	389	389	-
Intangible assets	21,355	24,249	(2,894)
Long term receivables from	131,375	131,375	-
	3,923,368	3,983,068	(59,700)
Liabilities			
Trade and other payables from exchange transactions	1,578,974	795,488	783,486
Current provisions	17,186	23,360	(6,174)
Current portion of borrowings	68,680	68,689	(9)
Tax obligations	1,973	2,380	(407)
Non-current liabilities Non-current provisions	383,562	56,742	326,820
Borrowings	709,358	763,494	(54,136)
Reserves	9,547,012	4,884,989	4,662,023
Accumulated Deficit	(117,271)	(67,445)	(49,826)

In addition, the statement of financial performance for the year ended 30 June 2016 reflected corresponding figures for 2014/15 that differed from the figures reflected in the comparative financial statements for the year ended 30 June 2015 as detailed below:

Statement of Financial performance	**2015/16 financial statements corresponding figures Kshs'000**	**2014/15 financial statements comparative figures Kshs'000**	**Variance Kshs'000**
Revenue from Non-Exchange Transactions			
Grants from development partners	600	-	600
Fines, penalties and levies	2,762,315	1,574,812	1,187,503
Licenses and permits	-	26,114	(26,114)
Revenue from exchange transactions			
Finance Income – External Investments	358,138	150,746	207,392
Other income	9,490	9,004	486
Expenses Employee cost	608,017	603,197	4,820
Board Expenses	2,164	4,551	(2,387)
Depreciation and amortization expenses	126,373	101,650	24,723
Repairs and maintenance	39,268	35,510	3,758
Technical and advisory	126,866	126,855	11
Market Research and development	196,931	197,152	(221)
Operating/Administrative Expenses	593,091	541,763	51,328
Disbursement to other Institutions	1,652,632	430,064	1,222,568

No adjusting journals were provided for audit review in support of the restated corresponding figures for 2014/15 reflected in the financial statements for 2015/16. In addition, the variances between the balances reflected in the comparative financial statements for 2014/15 and the corresponding figures under 2014/15 in the financial statements for 2015/16 were not explained. Consequently, the accuracy of the balances brought forward in 2016/2017 and the financial statements for the year ended 30 June 2017 could not be confirmed.

17. Irregular Renewal of Medical Insurance Cover

The statement of financial performance reflects an amount of Kshs.707,829,000 under employee costs for the year ended 30 June, 2017, and as disclosed under Note 10 to the financial statements, it includes an amount of Kshs.90,533,000 described as medical expenses. Review of available records indicates that the Authority entered into a one-year contract with an insurance company for provision of medical cover at a cost of KShs.86,341,029 for the one year. On expiry of the contract period, the Authority renewed the cover without adhering to the procurement process, as stipulated under the Public Procurement and Disposal Act, 2015. It is therefore not clear whether the Authority got value for money upon the renewal of the medical cover.

18. General Insurance Expenses

The statement of financial performance reflects operating/administrative expenses of Kshs.639,325,000. Included in this figure are insurance expenses disclosed in Note 17 to the financial statements of Kshs.8,152,000 whose procurement was done through single sourcing contrary to the requirements of the Public Procurement and Disposal Act, 2015. The Authority was therefore in breach of the law.

19. Transfer of Assets and Liabilities from the Defunct Sugar Development Fund

(i) Commodities Fund was constituted by merging the Sugar Development Fund and the Coffee Development Fund. The initial investment for the two funds was an amount of Kshs.4,052,300,000 from the defunct Sugar Development Fund and an amount of Kshs.1,178,153,000 from the defunct Coffee Development Fund. It was observed that, while the amount of Kshs.1,178,153,000 was contributed from the Coffee Development Fund, the amount of Kshs.4,052,300,000 that was to be contributed by the Sugar Development Fund was instead taken over by the Sugar Directorate under Agriculture Food Authority (AFA).

(ii) Whereas the assets of the former Coffee Development Fund were automatically taken over by the newly formed Commodities Fund, the same did not happen with the assets and liabilities held by the former Sugar Development Fund. There exists no official handover report or any record to show how the assets or liabilities were shared between Agriculture and Food Authority (AFA) and Commodities Fund. Consequently, the completeness and accuracy of the amount of assets and liabilities, disclosed by the Authority could not be confirmed.

20. Temporary Employees

Employee costs figure of Kshs.707,829,000 reflected in the statement of financial performance for the year ended 30 June 2017 includes salaries and wages of Kshs.517,353,000. The following unsatisfactory matters have, however, been noted:

(i) After the formation of Agriculture and Food Authority vide the AFA's Act, 2013 and Crops Act, 2013, the Authority was to take up all the Assets and Liabilities of the defunct Authorities/ Boards. As a result, the Authority took over all the employees of the defunct institutions and the staff were put on Interim appointments on 20 August 2014 regardless of their terms with former employers for a period of three months. Since August 2014 and up to the time of audit, the Authority has been extending these appointments for a period of three months for each term. To date the employees are still on Interim Contracts.

(ii) It was observed that the Authority is yet to harmonize the staff terms and conditions of service despite the Authority contracting Deloitte & Touche, a consulting firm, to conduct a job evaluation and its request to Salary and Remuneration Commission vide its letter AFA/HRM/28 dated 20 July, 2017, which provided that the Authority be allowed to finalize the process of harmonization of terms and placement of staff within two months from the date of the letter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Authority's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either intends to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.
Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

My responsibility is to conduct an audit of the Authority's financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matter described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

I am independent of Agriculture and Food Authority's in accordance with ISSAI 30 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.

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

Nairobi

16 July 2018