REPORT OF THE AUDITOR-GENERAL ON AGRICULTURE AND FOOD AUTHORITY FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Agriculture and Food Authority set out on pages 30 to 54, which comprise the statement of financial position as at 30 June 2018, 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 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, in all material respects, the financial position of Agriculture and Food Authority as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and do not comply with the Public Finance and Management Act, 2012.

Basis for Adverse Opinion

1. Property, Plant and Equipment

1.1. Ownership of Property, Plant and Equipment

The statement of financial position as at 30 June 2018, reflects a balance of Kshs.10,827,813,000 under property, plant and equipment, which includes several properties whose ownership has not been established as explained below:

(i) The balance of Kshs.10,827,813,000 includes an amount of Kshs.72,000,000 in respect of land measuring 236.35 hectares in Thika, Kiambu County. However, the land measuring 137.2 hectares out of the 236.35 hectares, and which was bought with funds from the defunct Coffee Board of Kenya, is registered in the name of a former Chairman. There is no evidence to indicate whether the former Chairman refunded for the amounts incurred in acquiring the land.

(ii) The balance also includes a motor vehicle registration number KBG 517C, which was registered in the name of Coffee Research Foundation. Although management indicates that the value of the vehicle has been removed from the books of account of the Authority, there is no evidence in the records of the Authority to confirm transfer or disposal of the vehicle.

(iii) Included also in the property plant and equipment balance of Kshs.10,827,813,000 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.692,000,000 is still in dispute.

1.2. Valuation of the Property, Plant and Equipment

(i) The statement of financial position's balance of Kshs.10,827,813,000 includes 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.

(ii) The fixed assets register provided for audit review revealed that the Authority had excluded ten acres of land situated in Wundanyi in Taita Taveta that had been allocated to the defunct Kenya Horticultural Development Corporation, which is valued at Kshs.36,600,000 and a piece of land in Kitui, which had been allocated to the defunct Cotton Board of Kenya and whose acreage had not been determined, but valued at Kshs.4,000,000.

1.3. Land in Mtwapa

(i) The property, plant and equipment balance also excludes seven acres of 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.

(ii)

(iii) 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.10,827,813,000 as at 30 June 2018 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 was 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 purchaser 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 can not be confirmed.

1.5. Old and Idle Motor Vehicles and Cycles

Disclosed in Note 36 to the financial statements is a balance of Kshs.208,857,000 in respect of net book value of automobiles. The net book value includes amounts of Kshs.1,710,000 and Kshs.1,350,000 relating to five motor vehicles and five motor cycles, respectively that are grounded. No reasons have been given for the failure to repairs and use the vehicles and motor cycles or dispose them off.

2. Investment in Subsidiary

As previously reported, the statement of financial position as at 30 June 2018 similarly reflects a balance 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 the 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.240,800. In the circumstances, the value of investments disclosed in the financial statements can not be confirmed.

3. Cash and Cash Equivalents

3.1. Unsupported Previous Years' Balances

(i) The statement of financial position as at 30 June 2018 reflects a balance of Kshs.3,311,549,000 under cash and cash equivalents, which includes, as disclosed under Note 24 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 have been provided to explain how the amount was 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.

(ii) As reported in the previous year, included in the cash and cash equivalents balance of Kshs.3,311,549,000 as at 30 June 2018 are bank account balances relating to the previous years' whose supporting documents have not been provided for audit review as analyzed below:

Directorate	Account Name	Account Number	Account Balance Kshs.
Sugar Directorate	Euro Bank	Not Provided	52,237,000

3.2. Short Term Deposits

The short term deposits of Kshs.1,927,980,000 as at 30 June 2018 as disclosed in Note 24 to the financial statements, includes 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.

In view of the circumstances noted above, the accuracy and completeness of cash and cash equivalents balance of Kshs.3,311,549,000 can not be confirmed.

4. Receivables from Exchange Transactions

(i) The statement of financial position as at 30 June 2018 and as disclosed under Note 25 to the financial statements reflects a balance of Kshs.3,340,855,000, (2017 - Kshs.3,335,913,000) under receivables from exchange transactions. As reported in the 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 2018.

(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 were 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.3,340,855,000 as at 30 June 2018 and as disclosed under Note 25 to the financial statements is an amount of Kshs.3,314,704,000 relating to trade debtors (levy arrears) as at 30 June 2018, 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) 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 have been provided to confirm how the decision to equate the balances was arrived at.

(v) 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 has been provided to indicate the nature of the prepayment or the reasons for its being written off.

(vi) As reported in the previous year, the financial statements for the year ended 30 June 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 2018 reflects an amount of Kshs.19,604,000 under receivables from non-exchange transactions, which includes staff debtors amounting to Kshs.10,278,000 as disclosed under Note 24 to the financial statements. The latter includes un- surrendered 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, 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.

Consequently, the completeness and accuracy of receivables from non-exchange transactions balance as at 30 June 2018 can not be confirmed.

6. Trade and Other Payables from Exchange Transactions

(i) The statement of financial position as at 30 June 2018 reflects a balance of Kshs.724,084,000 under trade and other payables from exchange transactions. As disclosed under Note 27 to the financial statements, this balance comprises trade payables, payments received in advance, third party payables, other payables and overdrawn bank accounts. 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 have to date not provided for audit review. Therefore, the propriety of the write-offs effected in the 2010/2011 financial year can still not be confirmed.

(ii) In addition, the trade and other payables from exchange transactions balance of Kshs.724,084,000 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.724,084,000 cannot be confirmed.

7. 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 a total rent of KShs.3,770,000 per annum for lease of these facilities.

Further, information available indicates that the Authority managed to repossess all the cold rooms from FPEAK and it is already leasing them and generating income. The Authority has also made demands for recoveries of the rent payable for the period the facilities were occupied by FPEAK. However, no recoveries have been made for the period when the facilities were under the use of FPEAK.

8. Irregular Payment on Capacity Building

The statement of financial performance reflects an amount of Kshs.621,773,000 under operating/administrative expenses and as disclosed in Note 20 to the financial statements includes expenses totalling Kshs.60,077,000 described as trainings, seminar, retreats and workshops and conferences. Included in the expenditure of Kshs.60,077,000 is an amount of Kshs.15,076,032 paid to the Institute of Packaging Professionals Kenya on 23 April 2018 vide contract No. AFA/LM/CON/94/2017-2018; in respect of provision of Capacity Building Initiatives for Packaging and Branding for Stakeholders in AFA.

The consultant was to perform the services for a period of six months from 19 April 2018 to 22 October 2018 or any other period agreed by the parties in writing. The payments for the consultancy were made as follows:

Date	Payment Voucher No.	Amount Kshs
15.05.2018	PV04257	3,015,206.40
08.06.2018	PV04402	3,015,206.40
28.08.2018	PV04788	3,769,008.00
18.09.2018	PV04920	5,276,611.00
Total		**15,076,031.80**

However, a review of the available records indicates that the expenditure on capacity building initiatives for packaging and branding for stakeholders in AFA had not been budgeted for. Further, the Contractor was the only bidder. In addition, although the contract stated that the consultant was to perform the services for a period of six months, and the consultants were to be paid at a monthly rate, the report writing was done within two months and the final payment settled in June 2018.

No evidence has been provided to indicate whether the scope and timing had been revised. It is, therefore, not clear whether the terms of the contract were addressed and whether the whole expenditure of Kshs.15,076,032 was a proper charge to public funds.

9. Rental Income

(i) The statement of financial performance reflects an amount of Kshs.132,475,000 under rental revenue from facilities and equipment. A physical verification of some of the coffee directorate properties comprising of a fifteen storied commercial development with two pent houses on 14th floor, office space on 13th floor, warehouses/storage spaces from 1st to 12th floor, platform with two railway tracks and sixty parking bays on ground floor revealed that the property is underutilized.

(ii) A review of documents provided for audit revealed that the Coffee Directorate should collect an amount of Kshs.37,476,000 and Kshs.55,824,480 from rent on space at Kahawa House and Coffee Plaza, respectively all totaling Kshs.93,300,480. However, currently, the Directorate collects an amount of Kshs.87,192,367 per annum for the same resulting to under collected rental income of Kshs.6,108,113.

(iii) During the year under review, the management had planned to spend an amount Kshs.54,650,000 for major renovations, electrical repairs, refurbishment of washrooms and interior painting of Kahawa House. However, no funds were expended in the renovation of the house and a physical verification revealed that no such work had taken place. No reason has been given for having not refurbished the said building.

(iv) It has been noted that Kahawa house has a gross leasable area of approximately 215,995 square feet however only 39,000 square feet have been let out resulting to under-use of 176,995 square feet. Rent at Kahawa is charged at Kshs.600 per square feet, therefore the un-used 176,995 square feet should be earning the Coffee Directorate Kshs.8,849,750 per month or Kshs.106,197,000 per annum.

10. Disbursements to Pyrethrum Processing Company

The statement of financial performance reflects a total expenditure of Kshs.2,673,044,000, which includes an amount of Kshs.114,104,000 indicated to have been disbursed to the Pyrethrum Processing Company of Kenya. This amount had not been budgeted for and was instead charged under various directorates vote heads. Although management has indicated that the amount was disbursed on directives from the Parent Ministry and the National Treasury, no documentary evidence has been produced in support of the said directive. Consequently, the validity of the disbursements of Kshs.114,104,000 can not be ascertained.

11. Unoccupied Offices in Kericho

The statement of financial performance reflects an amount of Kshs.621,773,000 under operating/administrative expenses, which, as disclosed under Note 20 to the financial statements includes an expenditure of Kshs.24,646,000 incurred on rent and rates. Included in the expenditure on rent and rates is an amount of Kshs.517,175 incurred in the lease of a 1000 square feet rentable space at the National Bank of Kenya Building in Kericho, that has not been occupied. No justification has been given for this nugatory expenditure.

12. Irregular Renewal of Medical Insurance Cover

The statement of financial performance reflects an amount of Kshs.1,039,305,000 (2017 – Kshs.707,829,000) under employee costs for the year ended 30 June 2018. As disclosed under Note 13 to the financial statements, the costs include an amount of Kshs.95,592,000 described as medical expenses. A 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.83,203,236 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.

13. Temporary Employees

Employee costs figure of Kshs.1,039,305,000 reflected in the statement of financial performance for the year ended 30 June 2018 includes salaries and wages totalling Kshs.839,789,000. 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 has been observed that the Authority is yet to harmonize the staff's terms and conditions of service despite the Authority contracting 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.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Agriculture and Food Authority 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. 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. Except for the matters discussed in the Basis for Adverse Opinion and Basis for Conclusions on Lawfulness and Effectiveness in Use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance, and under Other Matter sections, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

1. Unresolved Prior Year Issues

1.1. Disbursements to Other Institutions

As reported in the previous year, an expenditure of Kshs.2,246,900,000 on disbursements to other institutions, that was recorded in the year ended 2016 has to date not been supported with documentary evidence.

1.2. Grant Reserves Account

The statement of changes in net assets for the year ended 30 June 2017 reflected an amount of Kshs.4,052,334,000 under grants reserve, which included a debit of Kshs.1,161,277,000. The latter amount further included an amount of Kshs.12,764,922 - used in the construction of bridges, Kshs.397,473,383 – for cane testing units 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 grant reserves 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, however, indicated that the grant reserves were not to be transferred to Commodities Fund. No satisfactory reasons have been provided for the fact that the Authority advanced some loans to sugar companies, while the function had been delegated to Commodities Fund.

1.3. Loans to Sugar Companies

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

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

Further, the amounts disbursed by the Authority in the three years, all totalling Kshs.3,135,414,804 had not been captured in the financial statements for 2016/2017 and

2017/2018. As a result, the accounts receivables as at 30 June 2017 and 2018, respectively were understated by an amount of Kshs.3,135,414,804.

1.4. Transfer of Assets and Liabilities from Defunct Sugar Development Fund

Commodities Fund was constituted by merging the Sugar Development and Coffee Development Fund. The initial investment for the two funds was an amount of Kshs.1,178,153,000 from the defunct Coffee Development Fund. It was observed, 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 and Food Authority (AFA).

Whereas the loan book (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. An official handover showing how the assets and liabilities were shared between Agriculture and Food Authority (AFA) and Commodities Fund has been endorsed by the management of AFA and Commodities Fund. However, under the Crops Act, 2013, Commodities Fund remains a fund within AFA.

1.5. Loss on Foreign Exchange

The notes to the financial statements for the year ended 30 June 2017 showed a loss on foreign exchange transactions amounting to Kshs.1,203,000. However, no documentary evidence has been produced to show how the gain of Kshs.6,767,000 relating to the year ended 30 June 2016 was arrived at.

1.6. Finance Income - External Investments

The statement of financial performance for the year ended 30 June 2017 reflected an amount of Kshs.166,095,000) under finance income – external investments. The management did not provide evidence to show how an amount of Kshs.191,251,000 related to Sugar and Fibre Directorates out of Kshs.391,433,000 earned in the year 2016 was determined. In the absence of supporting documents or explanation, it is still not possible to confirm the accuracy and completeness of Kshs.391,433,000 described as finance income – external investment in 2016.

1.7. Finance Income – Outstanding Receivables

The statement of financial performance for the year ended 30 June 2017 reflected revenue from exchange transactions of Kshs.310,324,000). The amount relating to the year 2016 of Kshs.528,696,000, included an amount of Kshs.20,726,000 described as finance income – outstanding receivables. However, no supporting documents or explanations have been provided to date for an amount of Kshs.7,041,445, out of the Kshs. 20,726,000 described as finance income – external investments in the year ended 30 June 2016.

1.8. Other Income

The statement of financial performance for the year ended 30 June 2017 reflected an amount of Kshs.310,324,000 under revenues from exchange transactions, which in the year 2016 included other income of Kshs.13,400,000 (revised in the year 2017, to Kshs.13,263,000). However, the management has not supported the figure of Kshs.5,463,287 out of the Kshs.13,400,000 with verifiable documentary evidence to date.

1.9. 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)
Total		**177,296,000**	**82,214,477**	**95,081,513**

The above variances have not been explained to date or action taken to restate the comparative figures in the subsequent years' financial statements.

1.10. Operating and Administrative Costs - Security Service Providers

The statement of financial performance for the year ended 30 June 2017 reflected operating/administrative expenses amounting to Kshs.639,325,000. However, the comparative figure for 2016 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.

1.11. Accuracy of the Financial Statements

The comparative figures under year 2014/15 reflected in the statement of financial position as at 30 June 2016 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	**Statement of Financial Position Comparative Figures for 2014/15 (Kshs'000)**	**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 comparative figures for 2014/15 that differed with the figures reflected in the audited financial statements for the year ended 30 June 2015 as detailed below:

Statement of Financial Performance	Statement of Performance Comparative Figures Under 2014/15 Kshs'000	2014/15 Audited Financial Statements 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 have provided so far for audit review in support of the apparently restated comparative figures for 2014/15 reflected in the financial statements for 2015/16.

1.12. 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.

Although management has indicated that adjustments were subsequently made to the financial statements, the supporting documents have not been provided for audit review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters discussed in the Basis for Adverse Opinion and Basis for Conclusions on Lawfulness and Effectiveness in Use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance, and under Other Matter sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Unsupported Variation in the Contract Price

The Authority awarded a contract to 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.

Further, the addendum to the contract was not signed by the contractor and hence the revised contract sums from Kshs.399,858,465 to Kshs.422,300,450 as indicated in the penultimate certificate No 22 was not supported by a valid agreement. The actual amount of the revised contract sum is, therefore, not clear.

2. Construction of Cane Testing Units

The statement of financial performance reflects an expenditure of Kshs. 277,591,000 on repairs and maintenance, which includes, as disclosed in Note 16 to the financial statements, an amount of Kshs.245,140,000 incurred on repairs of plant and equipment. The expenditure on repairs and maintenance further includes an amount of Kshs.240,578,631 incurred on maintenance of cane testing units. A review of available records revealed the unsatisfactory matters indicated below in respect of cane testing units.

2.1. The First Pilot Cane Testing Unit

The idea of Cane Testing Units was embraced by the defunct Kenya Sugar Board in the financial year 2012/2013 and this was taken over by the Authority in succeeding years. By the time the Board was merged with other entities that form the Agriculture and Food Authority, an amount of Kshs.308,121,170 had been incurred in piloting the Cane Testing Units (CTUs) in both Nzoia Sugar Company and Sony Sugar Company.

The pilot project of setting up the Cane Testing Unit was started in Nzoia Sugar Company in the year 2012/2013. The budget for the project was Kshs.121,893,028. The contract to carry out the pilot project was awarded to Bosch Projects Limited of Durban South Africa, which had bid presented a bid of Kshs.137,095,735. There were additional costs to the project amounting to Kshs.29,025,435, which had not been factored in the cost of machinery bringing the total cost of the project to Kshs.166,121,170. No reason has given for the failure to have the cost of installation being part of the tender amount.

The defunct Board involved its local experts comprising of civil engineer, mechanical engineer and electrical engineer. The Project was to be a turnkey project and was handed over to the defunct Kenya Sugar Board on 16 November 2012. However, field visit on 14 March 2019 revealed that the cane testing unit was not in use. On enquiry, it was stated that the cane testing unit had some manual interventions which were due for an upgrade to remove the manual intervention.

Under the circumstances, it has not been possible to confirm that value for money was obtained in respect of the expenditure incurred on the Nzoia Sugar cane testing unit project.

2.2. The Second Pilot Cane Testing Unit

The second pilot project on Cane Testing Unit was established through a grant by the European Union's Sugar Reform Support Programme. The EU contracted Ducray Renoir of Mauritius at a cost of Kshs.142,000,000. Under the terms of agreement between the EU and the Sugar Directorate, under Agriculture and Food Authority, upon provisional handover of the facility and expiry of warrants, all maintenance requirements and obligations were to be taken over by the beneficiary. The following matters have been observed:

(i) The project was completed in the year 2014 and a completion certificate DCI/SUCRE/2013/319-835 issued.

(ii) The defunct Sugar Board did not involve the Department of Public Works but engaged an independent consultant.

(iii) The cane testing unit appear not to be integrated to the payment system as had been envisaged and a calibration model for cane quality prediction is required for further refinement to reach an acceptable status.

(iv) The equipment is rare in Kenya and therefore the expertise to repair it can only be found with the supplier whose representative is in South Africa. This makes it expensive to maintain.

(v) Although the cane testing unit was handed over to the Sugar Directorate in 2014, it has never been used in an industrial way as it is always grounded.

(vi) The technology in Sony Sugar is different from the technology installed in Nzoia Sugar and the other nine projects.

2.3. Additional Cane Testing Units in Nine Sugar Mills

The pilot projects informed the design taken in the additional nine projects. The Authority went ahead and on 5 December 2014 contracted a company to construct additional testing units in nine sugar companies, which included, Mumias, Kibos, Muhoroni. Chemilil, Sukari, Transmara, Butali, Kiscolkwale and West Kenya. The contract was to run between December 2014 to July 2017. The following matters have been observed:

(i) The project included contract for design, supply, delivery, installation, testing, training, commissioning and handing over of nine cane testing units vide contract No. AFFA/T/04/2014 on 5 December 2014. It also included construction of nine laboratories in the cane testing units.

(ii) The scope of works included core sampling equipment, dry laboratory cane analysis equipment, information capture and management system, wet laboratory equipment, general training, specialist training and consultancy.

(iii) The Authority did not involve the Department of Public Works but used their own experts to supervise, monitor and ensure that the Bill of Quantities are followed to the end.

(iv) The Authority is expected to pay annual maintenance fee of Kshs.240,578,631 for the Cane Testing Units and Kshs. 36,757,152 in laboratory license fees, which appear to be expensive.

(v) The total cost for constructing the nine cane testing units amounted to Kshs.1,807,171,706 as at 30 June 2018 besides an additional amount of Kshs.240,578,631 incurred on maintenance costs.

(vi) The projects have not been operationalized at an industrial level and therefore the benefits of the cane testing units have not been realized seven years since their initial launch.

(vii) In addition, it is not clear whether the cane testing units were useful to the sugar mills considering that up to date the sugar mills have not fully embraced payment of farmers based on sucrose content as envisaged when the project was initiated.

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 EFFECTIVENESSS 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, except for the matters discussed in the Basis for Adverse Opinion and Basis for Conclusions on Lawfulness and Effectiveness in Use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance, and under Other Matter sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Lack of Substantive Board Members

The term of the interim members expired and as a result, the Authority functioned without a substantive board from 7 November 2017 to close of the financial year under review (30 June 2018).

2. Lack of Detailed Board Members' Profiles

Audit examination of the interim board of directors profiles revealed that the bio data was not exhaustive to include details as stipulated in the Mwongozo Code such as work experience.

3. Board Minutes

Interim board of directors for the Authority held several meetings for the different committees namely Finance and Strategy, Human Resource, Audit and Governance and Technical during the year under review. An audit examination of board expenses revealed unsigned board minutes, which could not be authenticated and hence the Authority cannot rely on the deliberations as passed by the various board committees.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective 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 Those Charged with Governance

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 ability of Agriculture and Food Authority 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.

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.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity 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 skepticism 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 ability of Agriculture and Food Authority to sustain its services. 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 Authority to cease sustaining its services.

- 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 Agriculture and Food Authority 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.

FCPA Edward R. O. Ouko, CBS
<u>AUDITOR-GENERAL</u>

Nairobi

13 June 2019