

# **REPORT OF THE AUDITOR-GENERAL ON AGRICULTURE AND FOOD AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2019**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Adverse Opinion**

I have audited the accompanying financial statements of Agriculture and Food Authority set out on pages 26 to 54, which comprise the statement of financial position as at 30 June, 2019, and the statement of financial performance, statement of changes in net assets, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Agriculture and Food Authority as at 30 June, 2019, 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 Property, Plant and Equipment whose Ownership is not Confirmed**

The statement of financial position reflects a balance of Kshs.10,671,296,000 under property, plant and equipment, which as previously reported, includes several properties whose ownership status had not been established as explained below:

- (i) The balance includes an amount of Kshs.72,000,000 in respect of land measuring 236.35 hectares in Thika, Kiambu County. However, land measuring 137.2 hectares out of the 236.35 hectares which was bought with funds from the defunct Coffee Board of Kenya, was registered in the name of a former Chairman. No evidence was provided that the former Chairman refunded the amount incurred in acquiring the land.
- (i) The reported property plant and equipment balance included an amount of Kshs.161,200,000 representing the value of land on which the defunct Horticultural Crops Development Authority (HCDA) depots stand and for which title deeds had not been obtained.
- (ii) Included in the reported property, plant and equipment balance is an amount of Kshs.1,280,000,000 in respect of two parcels of land relating to the former Horticultural Crops Development Authority for which the Organization did not have ownership documents. The parcels include a plot situated along Mombasa road,

measuring 3.5 hectares valued at Kshs.692,000,000 which was allocated to a private developer even although the Authority holds an allotment letter. Although a ruling by the National Land Commission (NLC) was in favour of the Authority, the private developer had not vacated the land as at the date of the report. Further, the Authority had not obtained ownership documents for the parcel of land at the Jomo Kenyatta International Airport (JKIA) valued at Kshs.588,000,000 where the Horticultural Crops Directorate (HCD) is located.

- (iii) As previously reported, in the year 2000, Horticultural Crops Directorate constructed a depot in Machakos at a cost of Kshs.55,677,000. The depot was one of the seven satellite depots meant for Horticultural Produce Handling Facilities (HPHF). Although the facility's sole purpose was to pre-cool horticultural produce and provide market access support for smallholders, the facility is currently occupied by the County Government of Machakos. No evidence was provided that the County Government had signed a lease agreement with the Authority for use of the facility as at the date of this report.
- (iv) The reported property, plant and equipment balance includes a piece of land measuring 8.1 hectares valued at Kshs.1,600,000,000 located in Embakasi which was previously owned by the Coffee Board of Kenya from October, 1986. However, the land remained unutilized and is prone to illegal acquisition by informal squatters. Additional information indicated that a Development Company also claimed to have acquired the parcel on 03 July, 2009. It was not clear how the Company came to own the parcel of land.

## **1.2 Un-disclosed Non-Current Assets**

The reported property, plant and equipment balance excluded the value of various assets as explained below:

- (i) The fixed assets register provided for audit revealed that the Authority had excluded ten (10) acres of land situated in Wundanyi, Taveta and one hundred and twenty-seven (127) acres situated in Kitui valued at Kshs.36,600,000 and Kshs.4,000,000 and allocated to the defunct Horticultural Crops Development Authority and the defunct Cotton Board of Kenya, respectively. No explanation was provided for the failure to include the two pieces of land in the assets register and the financial statements of the Authority.
- (ii) The reported property, plant and equipment balance 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.
- (iii) The defunct Cotton Board of Kenya had property, plant and equipment with a net book value of Kshs.210,759,785 and investments of Kshs.13,940,758 in Meru Ginnery Limited as at 30 June, 1993. However, the Management did not

satisfactorily explain how these property, plant and equipment were accounted for upon the creation of the defunct Cotton Development Authority.

- (iv) The value of motor vehicle registration number KBG 517C, which was registered in the name of Coffee Research Foundation was removed from the books of accounts of the Authority under unclear circumstances.
- (v) The reported property, plant and equipment balance excludes capital expenditure totalling Kshs.2,289,347,764 incurred on the acquisition of the Cane Testing Units and Laboratories in the years 2014 up to 2018.
- (vi) The property, plant and equipment balance of Kshs.10,671,296,000 excludes the value of a property in Riverside Estate where the defunct Cotton Development Authority's Head Office was located. Information available indicates that 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, upon which the bank released the documents relating to the property to the purchaser. The purchaser thereafter sought to transfer the title to the property in his name before clearing the balance of Kshs.13,125,000. The Board, however, declined to execute the transfer documents and 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.

In the circumstances, the accuracy, completeness and ownership status of the reported property, plant and equipment balance of Kshs.10,671,296,000 as at 30 June, 2019 could not be confirmed.

## **2. Investments in Subsidiary**

As previously reported, the statement of financial position reflects a balance of Kshs.389,000 under investments which relates to investments on coffee exchange shares. However, the reported investment balance of Kshs.389,000 differed 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 accuracy of the value of investments reflected in the financial statements could not be confirmed.

## **3. Cash and Cash Equivalents**

**The statement of financial position reflects cash and cash equivalents balance of Kshs.3,358,668,000 which, as disclosed in Note 24 to the financial statements, includes bank balances totalling to Kshs.1,365,308,000. The following anomalies were noted regarding the balance:**

### **3.1 Inaccurate Bank Reconciliation Statement**

Bank reconciliation statement for the Sugar Farmers Arrears Account No. 01141588031600 in the Co-operative Bank of Kenya as at 30 June, 2019 reflected a reconciled cash book bank of Kshs.16,685,765. Examination of payments made through the Bank revealed that a total of Kshs.8,110,540 was in respect of rejected payments to farmers. However, this amount differs with the reconciliation statement which reflects a nil balance. The difference was not explained.

### 3.2 Authority to Operate Bank Accounts

A review of available bank statements and cash books of the Authority for the financial year 2018/2019 revealed that the Authority operated forty-one (41) bank accounts instead of twenty-three (23) as provided under The National Treasury Circular Ref: AG.3/88/1/33 dated 17 May, 2018. Further, the following accounts which were ordered closed were still operational:

Directorate	Account	Bank	Amount (Kshs.)
Sugar Directorate	1001009339300	NBK	512,437
Sugar Directorate	1001419222	NCBA	254,895

### 3.3 Undisclosed Balances

The Authority maintained a bank account at Barclays Bank of Kenya (now Absa Bank) which had a balance of Kshs.3,042,697 as at 30 June, 2019. However, the balance was not included in the reported cash and cash equivalents balance. In addition, bank reconciliation statements were not prepared contrary to Regulation 90(1)(3) of the Public Finance Management (National Government) Regulations, 2015.

### 3.4 Dormant, Inactive and Overdrawn Accounts

Examination of bank reconciliation statements and cash books of the Authority revealed that the following bank accounts were either dormant or overdrawn as analyzed below:

Directorate	Account	Amount (Kshs.)	Status
Sugar Directorate	NIC-Account 100141922	254,895	Dormant
Sugar Directorate	NBK-Account 01001032736101	313	Dormant
Sugar Directorate	NBK-Account 01281088502500	464	Dormant
Sugar Directorate	NBK-Account 01001009339300	512,437	Dormant
Nuts and Oils	Co-op Bank-Account 1141226285000	(17,380)	Overdrawn

The Authority incurred bank charges on accounts which were dormant. In addition, authority to overdraw the bank account was not provided.

### 3.5 Unexplained Opening Balance Adjustment

The June 2019 bank reconciliation statement for the National Bank of Kenya Account No.1001031599900 reflected a reconciled cash book balance of Kshs.230,013,392. However, included in the unrepresented cheques was Kshs.16,025,011 described as opening balance adjustment dated 01 July, 2016 and for which supporting documents were not provided.

### 3.6 Escrow Account

The Authority holds an escrow bank account at the Kenya Commercial Bank which had a balance of Kshs.8,581,797 as at 30 June, 2019. Although the Management clarified that the case for which the amount was held, was determined and a ruling issued, documentation on the determination of the case and payments made were not provided. Consequently, the validity of the escrow account could not be established.

### 3.7 Lost Investment in Euro Bank

As disclosed in Note 24 to the financial statements, included in the cash and cash equivalents balance of Kshs.3,358,668,000 are the short-term deposits of Kshs.1,631,929,000. As previously reported, the short-term deposits includes an amount of Kshs.52,237,374 in respect of deposits placed in Euro Bank which was placed under receivership in the 1990s. Although the deposits were provided for in full, the Authority has not provided evidence of the efforts made to recover the deposits.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.3,358,668,000 as at 30 June, 2019 could not be confirmed.

## 4. Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transactions balance of Kshs.3,491,148,000. The following matters were noted regarding the balance:

### 4.1 Long Outstanding Receivables

As disclosed in Note 25 to the financial statements, the reported receivables balance includes trade debtors totalling to Kshs.3,457,964,000. The trade debtors includes an amount of Kshs.229,121,575.89 relating to the Sugar Development Fund which has remained outstanding in the books of the Authority for a long period of time and of which an amount of Kshs.136,218,914 representing 59% of the balance related to rebates and borrowings as detailed below:

<b>Customer No.</b>	<b>Payee</b>	<b>Amount (Kshs.)</b>
CUST0063	SDL rebate on 2003/04 sugar exports	28,462,604
CUST0064	VAT refunds on export sugar (Mumias 2003/04)	66,263,199
CUST0068	Pyrethrum Directorate Borrowings	41,493,111
	<b>Total</b>	<b>136,218,914</b>

In addition, the receivables under headquarters included an amount of Kshs.199,519,415.40 relating to Pyrethrum Processing Company which had remained outstanding for a long time.

#### 4.2 Long Outstanding Levy Arrears

The trade debtors totalling Kshs.3,457,964,000 includes long outstanding levy arrears of Kshs.2,897,023,170 (83% of total receivables) as detailed below:

<b>Customer No.</b>	<b>Company</b>	<b>Amount (Kshs.)</b>
CUST0027	Sundry Importers	25,170,544
CUST0028	South Nyanza Sugar Company	346,801,943
CUST0029	Miwani Sugar Company (In Receivership)	121,057,793
CUST0030	Mumias Sugar Company	495,023,752
CUST0031	West Kenya Sugar Company	15,502,135
CUST0032	Nzoia Sugar Company	831,890,653
CUST0033	Muhoroni Sugar Company (In Receivership)	439,443,502
CUST0034	Chemelil Sugar Company	459,799,716
CUST0035	Kibos Sugar and Allied Industries	123,664,679
CUST0036	Soin Sugar Company	6,334,448
CUST0037	Butali Sugar Company	17,583,067
CUST0038	Transmara Sugar Company	8,443,624
CUST0039	Sukari Industries Ltd	99,684
CUST0040	Jaggeries	848,831
CUST0041	Kenya National Trading Corporation	5,358,800
	<b>Total</b>	<b>2,897,023,170</b>

The Management has not explained the measures put in place to recover the above amounts.

#### 4.3 Unsupported Rent Debtors

The receivables from exchange transactions balance of Kshs.3,491,148,000, as disclosed under Note 25 to the financial statements, includes rent debtors totalling Kshs.31,161,000. Included in the rent debtors are amounts of Kshs.6,668,230 and Kshs.24,162,356 relating to the Sugar and Horticultural Crops Directorates respectively. However, the Authority did not provide documentary evidence to support the balances.

Further, the schedule of rent debtors reflected an amount of Kshs.6,093,169 against Coffee Directorate which differs with the amount of Kshs.7,747,265 confirmed by the service provider. The resulting variance of Kshs.1,654,096 was not explained.

#### 4.4 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 or charges payable to the Authority. Further, available information indicates that according to the valuation report dated 07 September, 2011 from the Ministry of Lands, 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.

In the circumstances, the accuracy, completeness and full recoverability of receivables from exchange transactions balance of Kshs.3,491,148,000 could not be confirmed.

#### 5. Trade and Other Payables from Exchange Transactions

##### 5.1 Long Outstanding Payables

The statement of financial position reflects a balance of Kshs.698,861,000 under trade and other payables from exchange transactions which, as disclosed in Note 27 to the financial statements, includes an amount of Kshs.676,727,000 related to trade payables. However, trade payables amounting Kshs.536,048,131 or (79%) were long outstanding, with some dating back to the year 2011 as detailed below:

Vendor ID	Payee/Name	Directorate	Amount (Kshs.)
VEND0059	Munyao Muthama and Kashindi Advocates	Sugar	929,000
VEND0311	Bifuel For Kenya (norad)	Sugar	926,000
VEND0184	Sugar Research Levy	Sugar	444,776,697
VEND0015	Controller and Auditor General	Sugar	6,838,000
VEND0066	Ndungu Gathinji	Sugar	5,679,113
	<b>Sub-total</b>		<b>459,148,809</b>
VEND00001	Kenya Airports Authority	Horticulture	66,788,067
VEND00004	Cortec System and Solutions Ltd	Horticulture	3,789,588
VEND00005	Kenya Shell Ltd	Horticulture	2,804,228
VEND00006	Shelcon Tech Services	Horticulture	2,017,401
VEND00009	Sundry Creditors	Horticulture	1,500,039
	<b>Sub-total</b>		<b>76,899,322</b>
	<b>Grant-Total</b>		<b>536,048,131</b>

No reason has been provided for the failure to settle the long outstanding payables.

## 5.2 Unapproved Write-off of Trade and Other Payables

The trade and other payables from exchange transactions balance of Kshs.698,861,000 excludes payables of Kshs.2,636,872,172 relating to the defunct Coffee Board of Kenya, which had been written off as an old balance on the recommendation of a consultant. However, approvals for the write-off from both the Parent Ministry and The National Treasury have not been provided for audit review.

In the circumstances, the accuracy and completeness of the trade and other payables balance of Kshs.698,861,000 as at 30 June, 2019 could not be confirmed.

## 6. Unsupported Capital Grant Reserve Utilization

The statement of changes in net assets reflects amounts of Kshs.31,824,000 and Kshs.3,325,000 under grant reserves and retained earnings respectively described as capital/development grant utilized during the year. The amount under grant reserves was attributed to grants to Sugar Companies during the year. However, no documentary evidence was provided to support the disbursements to the Sugar Companies and in support of the amount of Kshs.3,325,000 under retained earnings. Consequently, the accuracy and validity of the amounts could not be confirmed.

## 7. Revenue from Exchange Transactions

The statement of financial performance reflects rental revenue totalling Kshs.152,277,000 which, as disclosed in Note 9 to the financial statements, includes rental income from buildings amounting to Kshs.123,921,000. A review of available records revealed the following:

### 7.1 Irregular Property Management Services and Reduced Rental Charges

The lease agreements were drawn between the tenants and the property management company instead of the Landlord (AFA) in spite of the fact that the agency agreement had not authorized the agent to enter into lease agreements with tenants. Furthermore, the agent had reviewed the rent charges downwards for some tenants without the approval of the Authority as shown below:

Tenant Name	Space Leased (Sq.Ft)	Date of Lease Renewal	Old Lease Quarterly Rates (Kshs.)	New Lease Quarterly Rates (Kshs.)
Kenya Quarry & Mines workers Union	510	17/12/2018	121,176	84,150
Winalight Company Limited	350	09/01/2020	83,160	57,750
Pankim Office Supplies	964	21/01/2020	229,047	159,060

No explanation was provided for the reduced rental charges.

### 7.2 Unsupported Rental Lease Agreements at the Coffee Directorate



The reported rental income from buildings totalling Kshs.123,921,000 includes an amount of Kshs.93,416,027 earned by the Coffee Directorate for Kahawa House and Coffee Plaza. Examination of schedules provided for audit revealed that the Coffee Directorate had a rental space of 48,418 square feet, 9 No. parking bays at Coffee Plaza and 155,170 square feet rental space with 30 No. parking bays for Kahawa House. The Directorate provided a list of tenants numbering eight (8) for Kahawa House, seventy-five (75) for Coffee Plaza and twenty (20) parking bays. However, although Kahawa House was fully let out, lease agreements with two (2) tenants occupying 21,000 square feet were not provided.

In addition, a total space of 39,258 square feet had been leased to 77 tenants at Coffee Plaza. However, lease agreements for an area of 2,425 square feet leased to five (5) tenants were not provided.

Further, available information indicated that twelve (12) tenants who had occupied the building did not appear in the database of tenants provided by the Coffee Directorate.

In the circumstances, the accuracy and completeness of the reported rental income from buildings of Kshs.123,921,000 could not be confirmed.

### **7.3 Unconfirmed Value Added Tax Charged on Rental Income from Buildings**

According to schedules provided for audit, the Coffee Directorate paid Value Added Tax (VAT) amounting to Kshs.9,245,580 on rental income. However, a scrutiny of the schedules and VAT monthly rent sheets provided by the service provider revealed that rental income on all properties was not subjected to VAT as provided by the lease agreements. Further, the Management applied VAT on the net rent remitted by the service provider after deducting fees from the rent collected.

Under the circumstances, the accuracy and completeness of the rental income earned and VAT paid thereon could not be confirmed.

### **7.4 Sub-Letting of Premises by the Tenants**

According to the lease agreements, the tenant was not permitted to transfer, assign, sublet or part with possession of the premises or part of it to any third party at any time during the course of the lease. Upon breach of the covenant, the Landlord may re-enter the premises and thereupon, the lease shall be terminated absolutely. However, audit inspection at Coffee Plaza on 27 April, 2020 revealed that three (3) tenants had sublet the premises without any approval or knowledge of the Management. Further, rental income from the subleasing was not accounted for or reflected in the AFA records and no action had been taken to terminate the leases.

### **7.5 Non-Accountability of Deposits and Late Payments by Tenants**

The lease agreements provided for three (3) months security deposits from tenants to be retained by the Landlord as security for the performance under the lease. However, only two deposits were accounted for in the financial statements. The accounted for deposits include an amount of Kshs.1,710,000 and a legal cost of Kshs.100,000 paid by the Equity Bank but not remitted by the service provider. Further, the lease agreements did not provide for penalty for late payment of rent.

## 7.6 Dilapidated Kahawa House

As previously reported, 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. Examination of the procurement plan for financial year 2018/2019 revealed a provision for renovation of Kahawa House. However, no such works had taken place during the financial year and no explanation was provided for non-rehabilitation of the building.

Further, Kahawa House has a gross leasable area of approximately 155,170 square feet but only an area of 75,170 square feet had been let out resulting in under-utilization of the building by 80,000 square feet. Rent was charged at Kshs.600 per square foot translating into lost rental income amounting to Kshs.48,000,000 per month or Kshs.576,000,000 per annum.

## 8. Disbursements to Sugar Farmers

The statement of financial performance reflects disbursement to farmers arrears of Kshs.2,085,430,000 which, as disclosed in Note 15 to the financial statements, relates to disbursements to farmers through five (5) sugar companies. Review of documents and records revealed the following:

### 8.1 Variances Between Financial Statements Figures and Bank Payments

The balances disclosed in the financial statements differed with the balances reflected in the bank statements as detailed below:

<b>Sugar Company</b>	<b>Financial Statements Balance (Kshs.)</b>	<b>Bank Statements Payments (Kshs. )</b>	<b>Difference (Kshs.)</b>
Mumias Farmers	754,441,000	745,437,702	9,003,298
Sony Farmers	397,638,000	383,379,281	14,258,719
Muhoroni Farmers	374,350,000	372,732,276	1,617,724
Nzoia Farmers	425,845,000	447,240,137	(21,395,137)
Chemilil Farmers	133,156,000	142,053,209	(8,897,209)

No reconciliation or explanation has been provided for these variances.

### 8.2 Variances Between Approved Amounts to Be Paid and Bank Payments

A review of the Authority's bank statement for Cooperative Bank of Kenya Account No. B114158031600 revealed that The National Treasury released a total of Kshs.2,102,120,935 for payment of farmers arrears for the year ended 30 June, 2019. However, examination of the bank payments and allocated amounts for the five public sugar mills (Ref. MOA/ A.11/10A/VOL.IV /4) revealed the following variances:

<b>Sugar Company</b>	<b>Approved Amounts (Kshs.)</b>	<b>Bank Statement Payments (Kshs.)</b>	<b>Variance (Kshs.)</b>
South Nyanza Sugar Co.	400,901,091	383,379,281	17,521,810
Mumias Sugar Co.	763,446,175	745,437,702	18,008,473
Nzoia Sugar Co.	426,316,339	447,240,137	(20,923,798)
Muhoroni Sugar Co.	375,957,331	372,732,276	3,225,054
Chemilil Sugar Co.	135,500,000	142,053,209	(6,553,209)

No reason was given for the failure to pay the actual amounts stipulated by The National Treasury.

### **8.3 Farmers Not in the Vetted List**

A comparison between the approved list of sugar cane farmers and bank payments details revealed that six hundred and seventy-two (672) farmers paid a total of Kshs.116,027,808 were not in the approved list of farmers. No explanation was provided for this anomaly.

### **8.4 Variance Between Amounts Paid and Approved**

The approved list released by The National Treasury detailed the sugar cane farmers' names, amounts to be paid (being amounts owed by government owned companies) and bank accounts. However, a review of bank payments details against the approved list of farmers showed that 671 farmers were paid a total of Kshs.398,906,772 which differed with the approved amounts of Kshs.237,323,279 resulting to a variance of Kshs.161,583,493. Further analysis of the list revealed that 202 farmers were overpaid by Kshs.29,076,081 while 469 farmers were underpaid by Kshs.190,659,573. No explanation was provided for these anomalies.

Further each farmer was underpaid by an unexplained constant amount of Kshs.180 per transaction translating into a total of Kshs.17,304,191 for 11,768 farmers for multiple transactions.

### **8.5 Farmers with More than One Account**

A test of duplicates on the bank payments data showed that a total of 2319 farmers with a total amount of Kshs.179,062,645 had more than one account. No explanation has been provided for the anomaly or the rationale behind farmers having more than one account.

### **8.6 Unconfirmed Disbursement of Farmers Arrears to Companies, SACCOs and Shares Accounts by Farmers**

Payments details indicate that sugar companies were paid a total amount of Kshs.267,162,668 for farmers arrears through the bank accounts detailed below:

<b>Bank Account No</b>	<b>Name</b>	<b>Total (Kshs.)</b>
1120054662900	Chemelil Sugar Company Ltd	1,003,368
1120054662901	Chemelil Sugar Company Ltd	83,267,922

102029114100	Miwani Sugar (In Receivership)	182,891,378
	<b>Total</b>	<b>267,162,668</b>

Further, an amount of Kshs.234,190,618 was paid to SACCOs on behalf of the farmers. In addition, analysis of bank payments made included unconfirmed payments of Kshs.163,402,739 to 4,782 farmers sharing the same bank accounts as follows:

<b>Bank Account No.</b>	<b>Sum of Total (Kshs.)</b>	<b>Count of Name</b>
1104121573	139,854,210	4,326
1009055044400	14,416,884	337
1112021760	1,938,892	46
1120012311900	2,970,966	40
1108069169	1,903,706	27
1104064421	2,318,081	6
<b>Total</b>	<b>163,402,739</b>	<b>4,782</b>

No returns and analysis of the farmers sharing the same account were provided by the sugar companies and SACCOs to confirm that the farmers actually received the money.

From the foregoing the validity, accuracy and completeness of disbursement to farmers arrears of Kshs.2,085,430,000 could not be confirmed.

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

### **Key Audit Matters**

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

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section 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. Un-Adopted Job Evaluation Report and Pending Harmonization of Staff Salaries

The statement of financial performance and Note 13 to the financial statements reflect employee costs totalling Kshs.1,001,976,000. The Authority was formed vide the Agriculture and Food Authority Act, 2013 and Crops Act, 2013 to take over all assets and liabilities of the defunct Authorities and Boards under the Ministry of Agriculture. 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. As previously reported, the employees were still on interim contracts.

In addition, the Authority was 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 the 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.

## 2. Construction of Cane Testing Units

The statement of financial performance reflects an expenditure of Kshs.281,499,000 on repairs and maintenance. As disclosed in Note 17 to the financial statements, an amount of Kshs.243,932,000 was incurred on repairs of plant and equipment of which Kshs.240,500,016 related to maintenance of cane testing units. However, as previously reported, the Projects had not been operationalized at an industrial level and therefore the benefits of the cane testing units had not been realized eight (8) years after their initial launch. Further, it was not clear whether the cane testing units were useful to the sugar mills considering that the sugar mills had not fully embraced payment of farmers based on sucrose content as envisaged when the project was initiated.

## 3. Payments Processed without Purchase Orders

Section 106(5)(a) and (b) of the Public Procurement and Asset Disposal Act, 2015 requires a procuring entity to place a purchase order with the person submitting the successful quotation who should confirm the purchase order in writing. However, instances were noted where vendor invoices were processed for payments without an official contract in form of purchase orders with vendors as summarized below:

Directorate	Amount (Kshs.)
Coffee	9,403,938
Fibre	713,800
Food	1,153,914
Horticulture	8,715,389
Headquarters	595,210,768
Nuts and Oils	199,922
POID	2,056,601
Sugar	10,331,192
Tea	40,161,033

<b>Total</b>	<b>667,946,556</b>
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In the circumstances, the regularity of the payments could not be confirmed.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### Basis for Conclusion

#### 1. Lack of Substantive Board Members

As previously reported, the Authority functioned without a substantive Board of Directors from 07 November, 2017 when the term of the interim Board Members lapsed.

There was, therefore, no support to the Accounting Officer with regard to responsibilities for issues of risk, control and governance and associated assurance and follow up on implementation of recommendations of internal and external auditors as envisaged under Regulation 175 of the Public Finance Management (National Government) Regulations, 2015.

#### 2. Information Technology (IT) Internal Controls

##### 2.1 IT Governance Gaps

The Authority had not instituted an ICT Strategic Committee or an IT Steering Committee. In addition, a formal, documented and tested emergency procedure for use in the event of an unforeseen occurrence had not been established neither did the Authority have an approved Disaster Recovery Plan.

##### 2.2 ICT Infrastructure Weaknesses

The Authority uses an ERP (Enterprise Resource Planning) Solution system with various modules, namely, Finance, Customer Relationship Management, and Human Resource Management. All the directorates are linked through the system. However, the Authority had not achieved full connectivity and integration between the Headquarters and its Directorates. System generated financial records could thus not be accessed on demand from the Headquarters.

In addition, the Horticulture Development Directorate implemented an upgrade to the ERP system while simultaneously running an older version of the ERP. The accounts receivables module which entails cash management, receipting and invoicing was maintained in the older/earlier version and the data was subsequently transferred manually to the upgraded system leaving room for human error. Use of two systems with the same capability may compromise the data of the Horticulture Directorate.

Further, the Authority has an Information Management System that provides for official communication, through staff emails operated within a secure domain. However, the staff used personal emails for official communication posing a risk to data security.

### **2.3 Sub-modules not Secured and Integrated**

Agriculture and Food Authority maintains its financial information through an ERP system which integrates all functional departments of the Authority namely; human resource, procurement, administration, finance and accounts through sub-modules. A review of the data on payables revealed that the sub modules were not properly secured and integrated because the vendor payment would be processed by keying in the vendor details instead of the system picking the vendor automatically from the vendor list. Hence, vendors would appear severally with different name formats.

Consequently, there is a risk of the ERP system being manipulated to process unauthorized transactions and the reports generated from the system may not reflect the true position of the account balances.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether processes and systems of internal control, risk management and overall 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 Authority's ability of to sustain services, disclosing, as applicable, matters related to

sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Authority or to cease operations.

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 Authority's 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 applicable 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 Authority's ability 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.



**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**09 August, 2021**