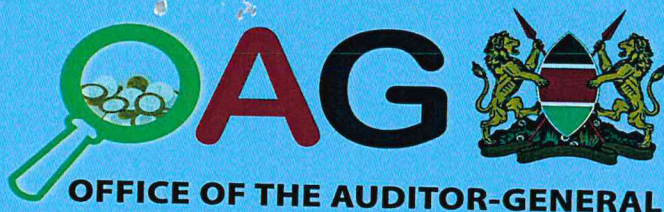


REPUBLIC OF KENYA



*Enhancing Accountability*

**REPORT**

THE NATIONAL ASSEMBLY  
PAPERS LAID

DATE: 02 FEB 2022 DAY: Wed

TABLED BY: LOM

CLERK-AT THE-TABLE: P. Karanu

**OF THE AUDITOR-GENERAL**

**ON**

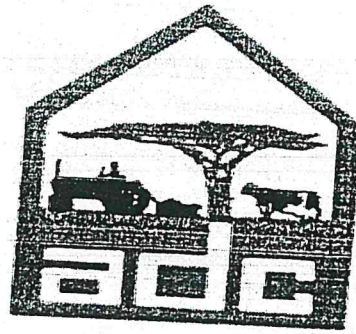
**AGRICULTURAL DEVELOPMENT  
CORPORATION**

**FOR THE YEAR ENDED  
30 JUNE, 2019**









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# **Agricultural Development Corporation**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2019**

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**Prepared in accordance with the Accrual Basis of Accounting Method under the International Public Sector Accounting Standards (IPSAS)**



## **AGRICULTURAL DEVELOPMENT CORPORATION**

### **Abbreviations, Key and Definitions**

1. **IPSAS** - International Public Sector Accounting Standards
2. **ADC** - Agricultural Development Corporation.
3. **AOG** - Office of the Auditor General.
4. **NDMA** - National Drought Management Authority.
5. **MOALF** - Ministry of Agriculture Livestock and Fisheries.
6. **GOK** - Government of Kenya
7. **ISO** - International standards Organization
8. **QMS** - Quality Management standards



# AGRICULTURAL DEVELOPMENT CORPORATION

## Table of Content

	Page
I. KEY CORPORATION INFORMATION AND MANAGEMENT.....	iii
II. BOARD OF DIRECTORS .....	iv
III. MANAGEMENT TEAM .....	viii
IV. REPORT OF THE MANAGING DIRECTOR .....	x
V. CORPORATE GOVERNANCE STATEMENT.....	xii
VI. CORPORATE SOCIAL RESPONSIBILITY STATEMENT .....	xiii
VII. REPORT OF THE DIRECTORS .....	xiv
VIII. STATEMENT OF DIRECTORS' RESPONSIBILITIES .....	xv
IX. REPORT OF THE INDEPENDENT AUDITORS .....	xvi
X. CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE.....	1
XI. CORPORATION STATEMENT OF FINANCIAL PERFORMANCE .....	2
XII. CONSOLIDATED STATEMENT OF FINANCIAL POSITION .....	3
XIII. CORPORATION STATEMENT OF FINANCIAL STATEMENT POSITION.....	4
XIV. LANDS LTD STATEMENT OF FINANCIAL POSITION .....	5
XV. STATEMENT OF FINANCIAL POSITION .....	6
XVI. STATEMENT OF CASHFLOWS.....	7
XVII. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL .....	8
XVIII. NOTES TO THE FINANCIAL STATEMENTS .....	9
XIX. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS .....	31



## I. KEY CORPORATION INFORMATION AND MANAGEMENT

### (a) Background information

The Agricultural Development Corporation is a state Corporation, established in 1965 through an Act of Parliament Cap 346; to facilitate the land transfer programme from European settlers to locals after independence. However, after successful completion of the land transfer programme, the objectives of the Corporation were revised through the Act of Parliament Cap 444 of 1986 to include promotion and execution of agricultural schemes among other Agricultural services.

### (b) Principal Activities

The Corporation's principal activity is development of agriculture in Kenya including:-

- ~ Provision of quality seeds to the Kenyan farmers.
- ~ Custodian of national livestock studs.
- ~ Playing a major role in the transfer of technology from research institutions to the Kenyan Farmer.
- ~ Playing a major role in support of industries processing agricultural goods being a major Producer of agricultural produce.

### (c) Key Management

The *Agricultural development corporation's* day-to-day management is under the following key organs:

- Board of Directors.
- Managing Director.
- Corporation Secretary
- Head of Finance.
- Head of Corporate Planning and Administration.
- Head of Technical.
- Head of Business Development.
- Head of Internal Audit.

### (d) Fiduciary Management

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2019 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Managing Director	Mr. Richard Ayabei
1.	Ag. Managing Director	Mr. Mohamed Bulle
2.	Ag. Corporation Secretary	Ms. Lilian Kosgei
3.	Head of Corporate Planning	Dr. Winnie Macharia(Phd)
4.	Ag. Head of Technical	Mr. Samuel Bundotich
5.	Head of Business Development	Mr. Maxwell Mugonyi
6.	Ag. Financial Controller	Mr. Jonathan Keitany
7.	Ag. Head of Internal Audit	Mr. Morrison Andwati

## KEY CORPORATION INFORMATION AND MANAGEMENT (Continued)

### (e) Fiduciary Oversight Arrangements

1. The Board operates under three committees as follows;

#### *Audit Committee activities include;*

- Charged with the responsibility of safeguarding of the corporation assets
- Ensuring adequate financial systems and controls are in place
- Ensuring financial statements and reports are in compliance with legal requirements and meet the relevant accounting standards.
- Reviewing the internal Audit reports and management action thereon.

#### *Finance, Staff and General Purpose Committee*

- Oversee sourcing and utilization of Corporation's Funds
- In charge of staff Remuneration, recruitments of senior managers, incentives and filling of vacancies.
- Reviewing the monthly management accounts
- Review of the corporation budgets and financial statements.

#### *Project Committee activities*

- Ensuring Projects undertaken by the corporation are viable and properly managed.

### (f) Headquarters & Registered Office

Development House 10<sup>th</sup> Floor

Moi Avenue

Nairobi, KENYA

### (g) Corporation Contacts

P.O. Box 47101-00100

Telephone: (254) -20-2250695/185

E-mail: [info@adc.co.ke](mailto:info@adc.co.ke)

Website: [www.adc.co.ke](http://www.adc.co.ke)

### (h) Corporation Bankers

1. National Bank of Kenya

Harambee Avenue

P.O. Box 41862-00100

Nairobi, Kenya

3. Consolidated Bank of Kenya

Harambee Avenue Branch

P.O Box 34823 -00100

Nairobi, Kenya.

2. Kenya Commercial Bank

P.o. Box 48400-00100

Nairobi, Kenya.

### (i) Independent Auditors

Auditor General

The Office of the Auditor General

Anniversary Towers, University Way

P.O. Box 30084 -00100 GPO

Nairobi, Kenya

### j) Principal Legal Adviser

The Attorney General

State Law Office

Harambee Avenue

P.O Box 40112 - 00200

Nairobi, Kenya

## II. BOARD OF DIRECTORS





**Hon. Benjamin Cheboi EBS**  
**Chairman**

*Appointed 6<sup>th</sup> June 2018*

Hon. Cheboi holds a master's degree in Financing Higher Education from University of Manchester United Kingdom and a Bachelor of Science Degree. Hon. Cheboi has a wealth of experience in public service having served as the first Governor of Baringo County. He rose through the ranks at the Higher Education Loans Board serving as the Deputy Chief Executive Officer, before being promoted to the position of the CEO of the same institution. In addition he was the first president of the Association of African Higher Education Agencies(AAHEFA) and a Commissioner, commission for Higher Education and Director at the Kenya Institute of Directors.



**Mr. Mohamed Bulle**  
**Ag. Managing Director**

He was appointed the Acting Managing Director in April 2019. He holds Master of Science in Environmental Studies with specialization in sustainable development and climate change Antioch University-USA.

Mr. Bulle also holds Bachelor of Science in Agricultural Education and Extension, and Diploma in Agriculture from Egerton University, a certificate in animal health from Animal Health and Industry Training Institute (AHITI) and a certificate in meat inspection from the University of Nairobi. He is also a member of the board of the directors of North-Eastern

Muslim Welfare Society which caters for the orphans and the vulnerable members of the society and a founder of Clean Air-Cool Planet Kenya Ltd,an agricultural and environmental consulting firm. Mr. Bulle has held key positions in the livestock and agriculture industry.

Mohamed is a member of the Environmental Institute of Kenya-EIK (a professional body for environmentalists).He also has accreditation with National Environmental Management Authority-NEMA as an environmental impact assessment and audit (EIA and Audit) Lead Expert.



**Hon. Peter Kiptanui Chemuigut**  
**Member**

*Appointed 6<sup>th</sup> June 2018*

Mr. Chemuigut holds a Bachelor's Degree in Public Administration from Great Lake University and currently finalizing a Masters Degree in Political Science/ Public Administration in Kisii University. He has vast experience in banking among other fields, and has worked as a consultant at the UK's Department for International Development (DFID), the World Bank and Agence Française de Développement (AFD) and the Bill and Melinda Gates Foundation. He has also been a lead supervisor at North American Savings Banks (Kansas USA) and Lab Technician at Corn Plant Daniels Midland Company (Minnesota USA).



**Hon. John Owuor Kobado**  
**Member**

*Appointed 6<sup>th</sup> June 2018*

Mr Kobado holds Masters Degree in Business Administration from University of Hull, UK, Bachelor of Science in Project Management (C/T), from Newport University, California. He also holds National Diploma in Business Management and Higher National Diploma in Mechanical Engineering. Hon. John has vast experience in consultancy, Research and Development and Engineering among others. He has also been a Member of National Assembly and a committee member of Agriculture, Fisheries and Co-operatives Committee and a member of Labour and Social Welfare Committee.

## BOARD OF DIRECTORS (Continued)



**Mrs. Jean Njiru**

**Member**

*Appointed 6<sup>th</sup> June 2018*

Mrs. Jean holds Masters of Professional Studies from Cornell University, USA and Masters of Science in Plant Pathology and a Bachelor of Science in Agriculture from the University of Nairobi. She has vast experience in supply chain management, research, leadership among others. She also undertook a professional development program under the Hubert Humphrey Fellowship Program at Cornell University to enhance leadership and management skills.



**CPA Elizabeth Mkandoe Shungula**

**Member**

*Appointed 6<sup>th</sup> June 2018*

Cpa Elizabeth Shungula Holds an MBA in finance from Kenya Methodist University a Bachelor of Commerce in Accounting from Daystar University and a certified public accountant. Shungula has versed experience in finance field covering wide areas including cash management, management of public debt, budgeting, monitory and updating external debts and currently working as a senior Investment Officer in Government Investment Public Enterprises at The National Treasury. She has knowledge in banking having worked in Family bank in various departments.



**Hon. Roba Sharu Duba**

**Member**

*Appointed 6<sup>th</sup> June 2018*

Hon. Duba an MBA in Business Administration from Jomo Kenyatta University and Technology, Bachelor Arts in Sociology, Diploma in Study of Modern Management from College of professional Management -Jersey, Uk. He has versed experience in management of public resources and policy formulation and implementation and administration having served as a member of parliament of Moyale and town clerk and county clerk in various county council. Currently Hon. Duba is the General Secretary and Executive Board Member of COTU(k) where he is in charge of ensuring compliance of provision of all laws guiding the trade union movement.



**Mrs. Tabitha Mbungu Maugi**

**Member**

*Appointed 6<sup>th</sup> June 2018*

Mrs Tabitha M. Mbungu Holds a MBA (Education) from Kenyatta University, B.ED from Kenyatta University and a diploma in education from Kagumo Teachers College. Mrs Maugi has over 30 years experience in education sector. She is a good administrator having served as a Principal Ndagoni Girls Sec School and Deputy Head Teacher Ikuu Girls Sec School. She has also served a county Executive member in Tharaka Nithi County Government.



## BOARD OF DIRECTORS (Continued)



Mr. Martin Ogindo

**Member**

*Appointed 6<sup>th</sup> June 2018*

Hon. Ogindo holds an MBA (Finance) from the University of Nairobi and a Bachelor of commerce (Accounting Option) from the University of Nairobi. He has enormous experience in public finance management having worked as an advisor economic planning, finance, strategy and budgeting in the council of Governors. Before that he served as a Member of Parliament for Rangwe constituency Kenya National Assembly.



Dr. Gladys Kasiva Ngao

**Member**

*Appointed 6<sup>th</sup> June 2018*

Dr Gladys Kasiva Ngao Hold a PhD in Education from the University of Pune, India; MBA in Human recourse management from Sikkim Manipal University, India; MEd (Sociology of Education) from Kenyatta university: B.Ed (Special Needs Education & Literature) & Dillpoma in G & C from Kenyatta Institute of professional counselling in collaboration with KEMU. Dr. G. K Ngao is an academia with other 30 year teaching at various learning institution and Universities. She is a member correctly working as a full time lecture at Kenyatta University. She is a member of many committees which include:- Member of Board of Postgraduate Studies, School of Postgraduate Studies of Kenyatta University, Cohesion and National Values Mainstreaming Committee of Maasai Mara University among others.



Hon. Paul Kibet Chebor

**Member**

*Appointed 6<sup>th</sup> June 2018*



Hon. Hassan Osman

**Member**

*Appointed 6<sup>th</sup> June 2018*



Ms. Lilian Kosgei

**Ag. Corporation Secretary**

Ms. Lilian is a qualified Advocate of Kenya with Bachelors of Law from Moi University , post graduate diploma in Law and is currently pursuing CPS. She was appointed as Acting Company Secretary in April 2019 after being a Legal Officer.

Ms. Lilian has considerable experience and skills in Conveyance and Civil litigation. She is a member of Law Society of Kenya.

### III. MANAGEMENT TEAM



**Mr. Mohamed Bulle**

*Ag. Managing Director*

He was appointed the Acting Managing Director in April 2019. He holds Master of Science in Environmental Studies with specialization in sustainable development and climate change Antioch University-USA.

Mr. Bulle also holds Bachelor of Science in Agricultural Education and Extension, and Diploma in Agriculture from Egerton University, a certificate in animal health from Animal Health and Industry Training Institute (AHITI) and a certificate in meat inspection from the University of Nairobi. He is also a member of the board of the directors of North-Eastern

Muslim Welfare Society which caters for the orphans and the vulnerable members of the society and a founder of Clean Air-Cool Planet Kenya Ltd, an agricultural and environmental consulting firm. Mr. Bulle has held key positions in the livestock and agriculture industry.

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Ms. Lilian has considerable experience and skills in Conveyance and Civil litigation. She is a member of Law Society of Kenya.



**Mr. Jonathan Keitany**

*Ag. Financial Controller*

Mr Keitany holds MBA (accounting) option from University of Nairobi; He is a Certified Public Accountant of Kenya and a member of ICPAK and IIA as well as certified Monitoring and Evaluation Officer. He was appointed Head of Internal Audit in June 2017 to May 2019 when he was moved to finance and appointed the acting financial Controller.

He has grown in the ranks within the Corporation having gained over 10 years' experience in both Audit and Finance of Agricultural branches and in the private sector previously

before joining the Corporation. He served as an audit and risk assessment officer in various Audit firms



**Winnie Macharia (Dr.)**

*Head of Corporate Planning & Administration*

Dr. Macharia was appointed Head of Corporate Planning and Administration four year ago.

She holds Doctor of Philosophy in Business Administration from University of Nairobi as well as Master of Business Administration from Kenyatta University. She also holds a

Bachelor of Education Degree from the same University as well as Higher Diploma in information Technology among other professional qualifications. She is a member of Kenya Institute of Management and Kenya Association of Public Administration professional bodies

She is a professional and accomplished administrator and manager with over 20 years' experience in senior management, administration and leadership in diverse work environment. She has four years' experience as Head of Corporate Planning and Administration in ADC, three years' experience as Provincial Director Youth Development Nairobi under the Ministry of Youth Affairs and sports and Head of Department for four years at Parklands-Boys High School as well as a teacher for nine years.



## MANAGEMENT TEAM (Continued)

Dr. Macharia has attended many management courses and seminars including Senior Strategic Leadership programme as well as leading with impact from Kenya School of Government, Corporate governance training for Directors, senior internal Auditor training.



**Mr. Maxwell Mugonyi**

***Head of Business Development***

Mr. Mugonyi hold a Bachelor degree in Insurance, Higher diploma in Human Recourse Management and diploma in Business Management. He joined the Corporation in April 2006 as Human Resource Manager and rose through ranks to the current position which he has been holding since December 2013.

He has vast experience gained through working in various companies which include Kenya National Assurance Company as a management trainee, Assistant Training and personnel Officer, Personnel and training officer. Spin Knit Group of Companies as a Human Resource Manager as well as West Kenya Sugar.



**Mr. Morrison Andwati**

***Ag. Head of Internal Audit***



**Mr. Samuel Bundotich**

***Ag. Head of Technical***

#### IV. REPORT OF THE CHAIRMAN

Once again I am pleased to present the annual financial statement and report for Agricultural Development Corporation for the year ended 30th June 2019.

##### **Business environment**

The year began well in general and we experienced relatively stable and conducive weather conditions in Kitale which contributed to an improved production of seed maize from 4.1 to 9.1 million Kilos being a 122% increase in production. The corporation experienced improved production in some of its crop enterprises. However, adverse weather conditions were experienced in other places such as Tana-River and Laikipia counties where the Corporation exercises beef rearing that resulted in loss of animals and reduced herd size.

##### **Corporate Governance**

Corporate governance is the process by which Companies are directed, controlled and held accountable. The Board of Directors of Agricultural Development Corporation is responsible for the governance of the Corporation and is accountable in ensuring that the Law is complied with and that the highest standards of corporate governance and business ethics to the shareholders are complied with.

The Board of Directors follows principles of openness, integrity and accountability in its stewardship of Corporation. It recognizes the developing nature of corporate governance on a regular basis, this is fundamental to appropriate discharge of duties and responsibilities.

##### **Future Outlook**

The Corporation has collaborated with the Government of Kenya to set up a Semen production centre in Kitale of which construction stage was completed and equipping done during the year under review and we are in the process of procuring bulls. Once its operational, the corporation will embark on large scale production of semen to be availed to Kenyan farmer thus improved breeds while boosting the Corporation's revenue base. To this end I would like to acknowledge with thanks the support we are currently receiving from the Ministry of Agriculture, Livestock and Fisheries.

The Corporation continued growth and success is dependent on collective efforts by all its stakeholders. The Board is committed to writing a new chapter of Agricultural Development Corporation

The Corporation recognizes the important role played by the management and its workforce to ensure continued success, to this end the Corporation has made significant investment in its human resource. The Corporation continues to engage in capacity building activities to ensure its staff remains updated through seminars, professional training and workshops. In addition, the Corporation has embraced the performance contracting as a tool to ensuring service delivery and actualization of its strategic plan.

I confidently look forward to a continued strong relationship with all of our stakeholders and partners in the year 2018 - 2019 for our mutual benefits.

.....  
CHAIRMAN

30/09/2019  
Date



## V. REPORT OF THE MANAGING DIRECTOR

### **Development and Implementation of Strategic Plan.**

The corporation revised its five year strategic plan 2015-2019 and is now in the process of implementing the objectives set out in its plan. Our budget and performance contract is anchored on this strategic plan, whose aim is to further improve revenue generation, efficiency enhancement, operational excellence, diversification and value addition for our products and services.

### **Technology and Automation.**

The Corporation continues to undertake and embrace technology through automation of its operations. The current accounting system (Sera system) continues to be updated to ensure it serves the Corporation's needs; however, there are challenges and the corporation has commenced the procuring for a more robust enterprise resource planning (ERP).

### **Core Values.**

The Corporation shall continue to uphold the practice of ethical behaviour in order to exhibit good corporate image and citizenship. We will continue to pursue growth in line with our core values and a solid culture of teamwork, professionalism, innovation, creativity, accountability and passion for quality at all times.

### **Performance contracting**

The Corporation has operated under performance contracting system in accordance with state corporation regulations 2004. We are committed to achieve the set targets through cascading from the top management to the Unit staff.

### **Future outlook.**

The Corporation will prioritize on strategic areas including certified potatoes and seed maize production, investment in information technology and increase in ADC Certified seed maize production. The Dairy sector shall also be refocused to ensure increased milk production and production of breeding in-calf heifers. Restocking of our ranches will also continue in line with the Corporation target of increasing production and productivity in the Ranches.

The Corporation will enhance collaboration with the parent ministry and potential investors in order to increase utilization of the idle land in various regions.

I wish to extend management gratitude to the Board of Directors for their wise leadership, all Government Agencies in particular the Ministry of Agriculture Livestock and Fisheries for their invaluable support during the year.

  
.....

Managing Director

30/09/2019  
.....

Date

## VI. CORPORATE GOVERNANCE STATEMENT

ADC regards Corporate Governance as key to the success of its business operations and is unreservedly committed to applying the principles necessary to ensure that good governance is practiced in all of its business dealings in respect of its Customers, Stakeholders and Partners.

Our Corporate Governance policy functions as a built in self-regulating mechanism which provides a framework to monitor and ensure statutory compliance, foster a culture of values and rewards the highest ethical standards and personal integrity.

We place a great deal of importance on the robust corporate governance practices and are committed to applying the highest standards of business integrity and professionalism in all our activities. The Corporation achieves this by using a risk based approach to establish a system of internal control and by reviewing the effectiveness of these controls on a regular basis.

The Corporation has formulated and applies corporate governance guidelines, which stipulates the responsibilities of management and the Board and relationships with stakeholders.

### Board Committees

The Corporation has set up three Board Committees to help in the implementation of its policy guidelines and strategy. These committees meet quarterly. The committees report their findings to the full Board for deliberations and subsequent ratification by the Board.

#### i. The Audit Committee

Charged with the responsibility of oversight and ensuring the integrity of financial statements, risk management, internal controls, compliance and ethics and effectiveness of internal and external audit activities of the Corporation and its subsidiaries. It also ensures the safeguard of the Corporation's assets.

#### ii. The Finance Staff and General Purpose Committee.

The Committee oversees the recruitment of Senior Management staff, Review the performance of the corporation on quarterly basis, Ensure the Human Resource policy is observed and staff matter are dealt with in accordance with laid down procedures. Further, the Committee ensures available funds are utilized prudently.

#### iii) Project Committee

The Committee approves and provides an oversight role on the execution of major projects in the Corporation.

### Independence

All the Directors of the Board are independent of management and free from any business or other relationship, which could materially interfere with the exercise of their independent judgment.

### Activities and Achievements

The Board meets quarterly and has a formal Board calendar. All directors have access to the Corporation Secretary and Legal Counsel. Currently, the Board comprises of ten non-executives and one executive director, the Managing Director

.....  
Chairman

30/09/2019  
.....  
Date

## **VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT**

The Corporation is people driven and focuses on food security through promotion and availing of quality seed and technology transfer at subsidised prices to Kenyan farmers. The corporation exists courtesy of the farmers and other stakeholders.

As a way of appreciating the community we developed a Corporate Social Responsibility (CSR) policy to guide in identification and implementation of various community based activities aimed at improving the social well being of our people. In support of local initiatives, various CSR activities have been sponsored by the corporation thus creating a synergy of ethics where our people and the corporation come together to contribute towards improving physical infrastructure and social well being. During the year 2018/2019 the corporation undertook the following CSR activities:-

### **Education Support**

The corporation donated materials and resources towards ensuring less fortunate students and pupils have access to education. Towards this end;

- The Corporation donates 2 nets of oranges every month to Anderson Orphanage in Kitale Trans-Nzoia County.
- The Corporation donated 3 nets of oranges towards youth conference in Baptist Church Endebess.

### **Community Policy**

The Corporation has developed a policy whereby it contributes positively to the surrounding community in its areas of operation. Towards this end the Corporation donates 29Ltrs of milk daily to the Kenya Police GSU and Administration police in Suam Trans-Nzoia

### **Environment Conservation**

The Corporation worked closely both with National and County Governments and other stakeholders towards environment conservation, during the year the Corporation executed facilitated the planting of trees at Sirikwa in Molo to promote a forestation.

### **Women Empowerment**

The Corporation donated funds towards promotion of women empowerment & development to social economic empowerment women organization being sponsorship towards AFGM.



## VIII. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 30<sup>th</sup> June, 2019 which show the state of affairs of *Agricultural Development Corporation* and its subsidiary – *Lands Ltd.*

### Principal activities

The principal activities of the Corporation are provision of quality seeds and custodian of the national stud and Livestock development.

### Results

The results of the Corporation for the year ended 30<sup>th</sup> June, 2019 was a profit of Kshs. 41 M as set out on pages 1.

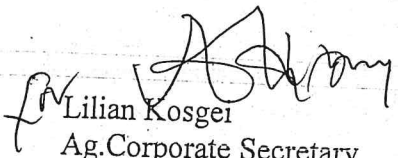
### Board of Directors

The members of the Board of Directors who served during the year are shown on page V& Vii.

### Auditors

The Office of the Auditor General is responsible for the statutory audit of the Corporation, in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act, 2015, the Auditor General will continue in Office.

By Order of the Board

  
Lilian Kosgei  
Ag. Corporate Secretary  
Nairobi

Date: .....

30/9/2019

## IX. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act Cap 486, require the Directors to prepare financial statements in respect of the Corporation and its subsidiary Lands Ltd, which give a true and fair view of the state of affairs of the Corporation and its subsidiary at the end of the financial year and the operating results of the Corporation and its subsidiary for that year. The Directors are also required to ensure that the Corporation keeps proper accounting records which disclose with reasonable accuracy the financial position of the Corporation and its subsidiary. The Directors are also responsible for safeguarding the assets of the Corporation and its subsidiary.

The Directors are responsible for the preparation and presentation of the Corporation's financial statements, which give a true and fair view of the state of affairs of the Corporation as at the end of the financial year ended on 30<sup>th</sup> June 2019. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Corporation; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Corporation; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Corporation's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act 2012 and the State Corporations Act Cap 446. The Directors are of the opinion that the Corporation's financial statements give a true and fair view of the state of Corporation's transactions during the financial year ended 30<sup>th</sup> June 2019, and of the Corporation's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Corporation, which have been relied upon in the preparation of the Corporation's financial statements as well as the adequacy of the systems of internal financial control.

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

### Approval of the financial statements

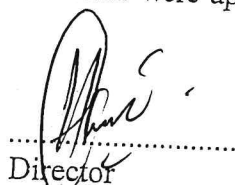
The Corporation's financial statements were approved by the Board on 30.09.2019 and signed on its behalf by:



Director

30/09/2019

Date



Director

30/09/2019

Date

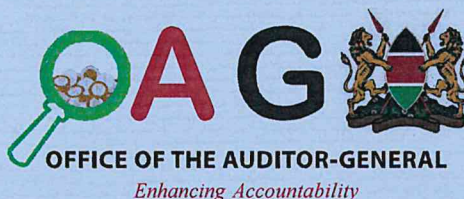
Director

Date



# REPUBLIC OF KENYA

Telephone: +254-(20) 3214000  
E-mail: [info@oagkenya.go.ke](mailto:info@oagkenya.go.ke)  
Website: [www.oagkenya.go.ke](http://www.oagkenya.go.ke)



**HEADQUARTERS**  
Anniversary Towers  
Monrovia Street  
P.O. Box 30084-00100  
NAIROBI

## **REPORT OF THE AUDITOR-GENERAL ON AGRICULTURAL DEVELOPMENT CORPORATION FOR THE YEAR ENDED 30 JUNE, 2019**

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### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Qualified Opinion**

I have audited the accompanying consolidated financial statements of Agricultural Development Corporation set out on pages 1 to 44, which comprise the consolidated statement of financial position as at 30 June, 2019, and the consolidated 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, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Agricultural Development Corporation and its Subsidiary as at 30 June, 2019, and of its consolidated financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012.

#### **Basis for Qualified Opinion**

##### **1. Property, Plant and Equipment**

###### **(i) Repossessed Land**

As reported in the previous year, the consolidated statement of financial position reflects a balance of Kshs.1,313,035,000 under property, plant and equipment which, as disclosed in Note 23(a) to the financial statements, includes an amount of 521,513,000 in respect of farms managed by the Corporation. The farms, referred to as ADC Private Forest Ndabibi L.R.7281/3 and 20591/86 relates to 4,000 acres of land re-possessioned from allottees who were unable to pay allotment fees.



Further, land L.R. No.20591/86 in Ndabibi and a parcel of land in Molo do not have ownership documents while land No. L.R.7281/3 has been encroached on by informal settlers although the Corporation has secured the title deed.

## **(ii) Home Farm Land**

As previously reported, the Corporation's land net book value of Kshs.521,513,000 as at 30 June, 2019 excludes the value of land L.R.No.10668 measuring about 2,908.42 acres known as Home Farm. The land was allocated to private developers in the year 1994 under unclear circumstances.

## **(iii) Garissa Irrigation Project**

The property, plant and equipment balance of Kshs.1,313,035,000 as at 30 June, 2019 exclude the value of land measuring 319.4 hectares located in Garissa Municipality whose value had not been determined.

## **(iv) Unexplained Variations- Assets Additions**

The property, plant and equipment balance of Kshs.1,313,035,000 includes additions during the year under review totalling Kshs.259,824,000. However, the additions balances reflected in the financial statement differs from the balances reflected in the trial balance as detailed below:

<b>Classification</b>	<b>Balance as per Financial Statements (Kshs.)</b>	<b>Balance as per Trial Balance (Kshs.)</b>	<b>Variance (Kshs.)</b>
Buildings	58,007,000	0	58,007,000
Cost of Fencing	139,000	68,353	70,647
Farm Machinery	128,200,000	89,834,830	38,365,170
Furniture and Office Equipment	2,960,000	748,982	2,211,018
Motor Vehicles and Tractor	70,197,000	168,965,155	(98,768,155)
Cost of Small Tools	239,000	125,617	113,383

No reconciliation or explanation was provided for the variances.

Under the circumstances, the accuracy and completeness of the property, plant and equipment balance of Kshs.1,313,035,000 as at 30 June, 2019 could not be confirmed.

## **2. Capital Works- In-Progress**

As previously reported, the capital work -in- progress balance of Kshs.123,143,000 as at 30 June, 2019 includes a construction project at Suam Orchids farm in Kitale valued at Kshs.9,978,000 that was started in 2006. Further, the capital work-in-progress includes an amount of Kshs.4,899,287 relating to projects that have remained idle for the last eight (8) years.

Under the circumstances, the carrying value of the capital work-in-progress of Kshs.123,143,000 as at 30 June, 2019 could not be confirmed.

### **3. Investments**

The statement of financial position reflects a balance of Kshs.467,283,000 under investments as at 30 June, 2019. The balance relates to investments in shares held in Chemelil Sugar Company Limited - Kshs.203,592,000, Development House - Kshs.90,251,000, Muhoroni Sugar Company - Kshs.41,342,000, Kenya Co-operative Creameries - Kshs.4,151,000, Kenya Grain Growers Co-operative Union - Kshs.1,404,000, Kenya Seed Company Limited - Kshs.114,014,000, Pyrethrum Board of Kenya - Kshs.36,000, Kenya Planters Co-operative Union - Kshs.31,000 and Agro-Chemical and Food Company Limited - Kshs.16,900,000 which were acquired between 1975 and 1995.

However, information available indicated that Muhoroni Sugar Company, Kenya Grain Growers Co-operative Union and Kenya Planters Co-operative union with investments totalling Kshs.42,777,000 are either under receivership or liquidation. Further, Chemelil Sugar Company Limited and Agro-Chemical and Food Company Limited with investments totalling Kshs.220,492,000 have been making losses and have not paid dividend for a considerably long time. In addition, no provision has been made in the financial statements for the likely diminution in value of the investments.

Under the circumstances, the value of the investments in the companies is, therefore, doubtful and may not be recovered.

### **4. Biological Assets**

The statement of financial position reflects a balance of Kshs.1,626,211,000 under biological assets as at 30 June, 2019. However, and as previously reported, the Corporation received an amount of Kshs.250,000,000 from the Government in the year 2017 for purchase of livestock as a mitigation to the pastoralists against loss due to drought. Schedules provided for audit indicated that the Corporation acquired 4,008 animals at a total cost of Kshs.105,608,000. After effecting the loss of 60 animals and deaths of 770 animals, Management reported a net value of Kshs.86,714,000 for the animals. However, the amount of Kshs.86,714,000 is excluded from the value of biological assets of Kshs.1,626,211,000 as at 30 June, 2019.

Under the circumstances, the accuracy and completeness of the biological assets balance of Kshs.1,626,211,000 as at 30 June, 2019 could not be confirmed.

### **5. Trade and Other Payables - Exchange Transactions**

The consolidated statement of financial position reflects a balance of Kshs.1,230,097,000 under trade and other payables from exchange transactions which, as disclosed in Note 26 to the financial statements, comprised of trade creditors and non-trade creditors of Kshs.812,182,000 and Kshs.417,915,000, respectively.



- (i) As previously reported, included in the non-trade creditors balance of Kshs.417,915,000 is an amount of Kshs.21,260,120 relating to audit fees that had been outstanding since 1995. No explanation was provided for failure to pay the audit fees.
- (ii) The non-trade creditors balance of Kshs.417,915,000 also includes unremitted statutory deductions of Kshs.18,512,223, Kshs.27,349,542 and Kshs.40,492,170 and Kshs.68,992,733 for Pay As You Earn (PAYE), National Social Security Fund (NSSF), Pension Scheme deductions and Agdeco Society deductions respectively, dating back to 1998.
- (iii) The trade creditors of Kshs.812,182,000 includes an outstanding balance of Kshs.267,279,416, payable to a firm in respect of fertilizer supplies. The latter balance includes an amount of Kshs.112,219,009 being interest charged at the rate of 18% per annum based on the number of days in default as at 30 June, 2014. However, interest accrued to the account from 1 July, 2014 to 30 June, 2019 was not been included in the financial statements as at 30 June, 2019.

Consequently, the accuracy and completeness of trade and other payables of Kshs.1,230,097,000 as at 30 June, 2019 could not be confirmed.

## **6. Grants Reserves**

The consolidated statement of financial position reflects a balance of Kshs.3,284,786,000 under grants reserves which includes an amount of Kshs.137,500,000 received from the State Department for Livestock in the financial year 2017/2018 for the off-take programme. However, the latter balance was less an amount of Kshs.15,330,000 which the Corporation had been instructed to pay identified farmers who had lost their livestock. The grant of Kshs.137,500,000 was spent on the off-take programme for the financial year 2017/2018 and it is therefore not clear why the amount was capitalized.

## **7. Receivables from Exchange Transactions**

The consolidated statement of financial position reflects a balance of Kshs.575,834,000 under receivables from exchange transactions which, as disclosed in Note 20 to the financial statements, comprised of trade and non-trade receivables of Kshs.417,484,000 and Kshs.158,350,000, respectively. The trade receivables of Kshs.417,484,000 is net off specific provision and general provision of Kshs.52,499,000 and Kshs.4,909,000 respectively. The following observations were made:

- (i) As reported in the previous year, the receivables from exchange transactions balance of Kshs.575,834,000 includes an amount of Kshs.9,859,415 that has remained outstanding for a long period of time dating back to 1980. Further, the analyses of the specific provision of Kshs.52,499,000 for bad and doubtful debts was not provided for audit review. In addition, the basis for determining the general provision of Kshs.4,909,000 was not disclosed.



- (ii) Included in the non-trade debtors' net balance of Kshs.158,350,000 is an amount of Kshs.5,733,260 (2017/2018 - Kshs.5,839,329) described as lost cash. The reduction of the lost cash by Kshs.106,069 was explained as receipt from debtors. However, details of the debtors from whom the amounts were received were not provided for audit review.
- (iii) Further, a schedule provided to support non-trade debtors at Kiswani farm reflected an amount of Kshs.283,442 which included an unsupported amount of Kshs.45,759 described as loss of cash and stores.
- (iv) In addition, a pre-payment of Kshs.350,000 for purchase of beef cows at Kiswani farm has been netted off from the non-trade debtor's balance resulting in an understatement of debtors and creditors by the same amount.
- (v) Further, a schedule provided at Head Office to support safari imprest at Kiswani farm indicated an amount of Kshs.534,425 while examination of imprest records maintained at Kiswani Farm indicated that the amounts related to outstanding safari imprests dating back to 2011/2012 financial year. No explanation was provided on why the outstanding amounts were not recovered from the respective officers.
- (vi) As also reported in the previous year, the non-trade debtors include deferred grants receivable of Kshs.70,000,000 from the parent Ministry. However, no documentary evidence has been provided to indicate that the amount would be receivable in the foreseeable future.
- (vii) Included in the trade debtors gross balance of Kshs.474,892,000 is an amount of Kshs.312,144,802 described as Head Office balances. The Head Office balances includes an amount of Kshs.154,804,812 due from long term leases entered into between the Corporation and various entities which were later terminated since the Government wanted to take over the Galana/Kulalu ADC farms. Some of the entities have taken the Corporation to court for breach of contract, and therefore the chances of recovering the debt is nil. No provision was made in the financial statements for the balances.
- (viii) Further, a schedule provided to support trade debtors at Molo farm units; Enchili, Molo, Sirikwa and Asante reflected balances of Kshs.7,215,470, Ksh.9,565,400, Kshs.666 and Kshs.1,296,450, respectively. However, an audit inspection carried out in the Molo farm units to verify and confirm the amounts revealed that no records were maintained to support the balances. In addition, a schedule provided to support trade debtors at Kiswani farm reflected an amount of Kshs.4,045,298 while farm records reflected an amount of Ksh.8,086,521, resulting in unexplained variance of Kshs.4,041,223.

- (ix) As reported in the previous year, verification of records in 2015/2016 revealed that lease rental receivables totalling Kshs.214,458,668 had been excluded from the financial statements. Similarly, no adjustment was made in the financial statements for the financial year 2018/2019 to record the omission.

Under the circumstances, the accuracy, completeness, and recoverability of receivables from exchange transactions balance of Kshs. 575,834,000 as at 30 June, 2019, could not be confirmed.

## **8. National Livestock Project**

As disclosed in Note 21 to the financial statement, the consolidated statement of financial position reflects a balance of Kshs.46,634,000 (2018- Kshs.47,758,000) in respect of the National Livestock Project account that is claimable by the Corporation from the parent Ministry. The project started in 2006 when the Government granted ADC an amount of Kshs.198,000,000 to purchase livestock under the emergency off-take programme in drought stricken arid areas. During the year under review, the Corporation incurred costs totalling Kshs.46,634,000 on maintenance and daily running of the project operations. However, the following unsatisfactory matters were noted:

- (i) The Project has been reporting losses over the years while a similar livestock enterprise under ADC is reporting profits.
- (ii) The current account balance of Kshs.46,634,000 was not supported by demand notes to the parent Ministry or State Department of Livestock and as such it was not possible to confirm the validity and accuracy of the debt.
- (iii) The Project did not prepare financial statements during the year and as a result it is not clear how the operations overheads were apportioned between ADC and the National Livestock Project.

## **9. Rental Revenue from Facilities**

### **(i) Lack of Valuation Reports for the Leases**

As disclosed in Note 4 to the financial statements, the consolidated statement of financial performance reflects an amount of Kshs.32,231,000 under rental revenue from facilities for the year ended 30 June, 2019 (2018 - Kshs.28,064,000). An audit review of sampled lease agreements and receipts from lease rental revenue revealed that the Corporation had leased land to various investors in various farms in return for rental revenue as detailed below:

	<b>Investor</b>	<b>Farm Unit</b>	<b>Lease Period</b>	<b>Acreage</b>	<b>Annual Rental Charges per Acre Kshs.</b>	<b>Total Kshs.</b>
1	M/s Woragus Limited	Mutara - Laikipia	15yrs	15,000	500	7,500,000
2	M/s Chester House Limited	Mutara - Laikipia	16yrs	20,000	80	1,600,000
3	M/s IDMO	Galana - Kulalu	15yrs	4,000	150	600,000
4	Lawangiro Camel Farm Limited	Mutara - Laikipia	15yrs	11,000	150	1,650,000
5	M/s Arafc Agricultural Integration	Galana - Kulalu	16yrs	100,000	200	20,000,000
6	M/s Braken Agricultural Limited	Galana-Kulalu	16yrs	100,000	300	30,000,000
7	M/s Bush Land Limited	Galana-Kulalu	15yrs	95,000	200	19,000,000
8	M/s National Irrigation Board	Galana-Kulalu	5yrs	20,000	3,000	60,000,000
			<b>Total</b>	<b>365,000</b>		<b>140,350,000</b>

However, the lease agreements and receipts were not supported by lease valuation reports. Further, there was no Board Policy to guide on the lease charges which ranged from Kshs.80 to Kshs.3,000 per acre annually.

## (ii) Failure to Prepare Contract

Included in lease rental revenue is an amount of Kshs.1,300,000 received from a firm for extraction of murram/gravel at Galana - Kulalu ranch at a cost of Kshs.100,000 per acre during the construction of 100km Malindi-Sala Gate road. However, the Corporation did not prepare a contract with the firm to establish the basis of charging Kshs.100,000 per acre. Although the Management explained that during excavation and loading on the lorry, an employee of ADC was to register the number of lorries loaded and a payment of Kshs.1,000 made per ton to ADC Galana, there were no records or evidence to show how the instructions changed from Kshs.1,000 per ton to Kshs.100,000 per acre.

Under the circumstances, the accuracy, completeness and propriety of rental revenue from facilities of Kshs.32,231,000 could not be confirmed.

## 10. Management Fees

The consolidated statement of financial performance reflects a Nil amount in respect of management fees for the year ended 30 June, 2019 (2018 - Kshs.4,243,650). The nil receipt excludes an amount of Kshs.2,367,660 attributed to an agreement entered into on 8 March, 2017 between Agricultural Development Corporation (ADC) and the National Disaster Management Authority (NDMA) on "commercial destocking for drought mitigation". According to Clause 5 on costs and payments, the Corporation was to receive Kshs.19,136,867 on signing of the agreement. This amount was to be



used for purchase, translocation and managing 1,000 heads of cattle for three months and a further Kshs.38,273,733 thereafter for the additional 2,000 heads of cattle. ADC was to be compensated at Kshs.30 per cow per day as management fees. Examination of the Corporation documents did not disclose details of amounts received from this agreement and how it was applied during the year under review.

In view of the foregoing, the accuracy and completeness of the Nil management fees for the year ended 30 June, 2019, could not be confirmed.

## **11. Loss of Fertilizer**

As reported in the previous years, the Corporation lost a sum of Kshs.24,447,500 through fake bank deposit slips in respect of sale of fertilizer in Eldoret. The fertilizer, which was part of 40,000 bags imported grade worth Kshs.111,680,000 had for unclear reasons been stored in a private store in the town. According to available information, the mode of payment was to be either through direct bank deposits where bank slips would be issued and later used for collection of the fertilizer, or by banker's cheques which had to be confirmed before the sale.

The Corporation, however, adopted the direct bank deposits method but due to weak controls, fertilizer worth Kshs.24,447,500 was released before the respective bank deposits had been confirmed. Although the Management has indicated that a criminal case on the matter opened at Eldoret High Court and that some of the accused persons were acquitted, a warrant of arrest against one of the accused who absconded during the trial, has not yet been effected.

Under the circumstances, and until the matter is concluded, the recovery of the loss of Kshs.24,447,500 remains doubtful.

## **12. Inventories**

As disclosed in Note 22 to the financial statements, the consolidated statement of financial position reflects a balance of Kshs.262,699,000 under inventories as at 30 June, 2019. The following unsatisfactory matters were observed during audit field inspection:

### **(i) Overstated Closing Balance on Stellar Star Herbicide**

Examination of store's ledger card maintained by Machinery Pool Unit at Kitale revealed that the closing balance as at 30 June, 2019 for stellar star herbicide was 350 units at a unit price of Kshs.6,488 amounting to Kshs.2,270,800. However, the stock sheet summary indicated 400 units at a unit price of Kshs.6,488 amounting to Kshs.2,595,200 resulting in an overstated difference of Kshs.324,400.

### **(ii) Overstated Closing Balance on Basagram Herbicide**

Examination of store's ledger card maintained by Machinery Pool Unit at Kitale revealed that the closing balance as at 30 June, 2019 for basagram herbicide was 810 units at a unit price of Kshs.1,504 amounting to Kshs.1,218,240. However, the stock

sheet summary indicated 810 units at a unit price of Kshs.4,300 amounting to Kshs.3,483,000 resulting in an overstated difference of Kshs.2,264,760.

**(iii) Understatement of Boma Rhodes Hay Closing Balance**

Examination of the store's ledger card maintained by Katuke Complex at Kitale revealed that the closing balance as at 30 June, 2019 for boma rhodes was 35 units at a unit price of Kshs.1,420 amounting to Kshs.49,700. However, the stock sheet summary indicated 45 units at a unit price of Kshs.950 amounting to Kshs.42,750 resulting in an understated difference of Kshs.6,950.

Under the circumstances, accuracy and completeness of the inventories balance of Kshs.262,699,000 at 30 June, 2019 could not be confirmed.

**13. Undisclosed Material Uncertainty in Relation to Sustainability of Services**

The consolidated statement of financial position reflects accumulated deficit of Kshs.719,702,000 as at 30 June, 2019 (2018: accumulated deficit of Kshs.760,988,000. Further, the current liabilities of Kshs.1,354,420,000 exceeded the current assets of Kshs.1,079,516,000, resulting in a negative working capital of Kshs.274,904,000. The Corporation is, therefore, technically insolvent and its continued existence as a going concern or its ability to sustain its services is dependent upon support from the National Government and its creditors. However, the material uncertainty has not been disclosed in the financial statements.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Agricultural Development Corporation and its Subsidiary 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 qualified 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.

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*Report of the Auditor-General on Agricultural Development Corporation for the year ended 30 June, 2019*

## **Basis for Conclusion**

### **1. Under-Collection of Revenue**

The statement of comparison of budget and actual amounts reflects an under collection of revenue of Kshs.543,258,000. This represents 27.9 % of the gross estimated receipts of Kshs.1,943,946,000. The under collection of revenue was attributed to failure to collect income from services units - Kshs.24,299,000, farming income - Kshs.318,544,000, rent and eco-tourism-Kshs.135,206,000, investment income - Kshs.29,270,000 and other incomes - Kshs.35,939,000. The Corporation's resources were therefore not efficiently and effectively used hence, the failure to meet revenue targets for these items during the financial year under review.

### **2. General Expenses**

#### **(i) Procurement from Unresponsive Supplier**

The Public Procurement Oversight Board in a letter referenced PPRA/P&R//1 VOL.V (92) and dated 11 March, 2019 had, upon request by the Corporation, recommended open tender method for purchase of fertilizer. Although the Kenya National Trading Corporation (KNTC) Limited failed at preliminary stage in the evaluation of the tender, the Corporation directly procured and awarded a contract for supply of 20,000 bags of NPK 23:23:0 to the KNTC through local purchase order numbers 659931 and 659947 dated 21 March, 2019 and 2 April, 2019, respectively. This was contrary to Section 91(1) and (3) of the Public Procurement and Assets Disposal Act, 2015 which provides that, "open tendering shall be the preferred procurement method for procurement of goods, works and services and should be adopted for procurement of goods, works and services for the threshold prescribed".

Although Section 131 of the Public Procurement and Asset Disposal Act, 2015 provides and specify the conditions for competitive negotiations of bid prices, the Kenya National Trading Corporation did not meet the prescribed provisions on tie in quoted prices, tie in combined score, budget limit and urgency of goods.

ADC has so far made payments amounting to Kshs.42,023,250.00 to the Kenya National Trading Corporation Limited without contractual basis under which the procurement of the fertilizer was made and contrary to recommendations and advice of the negotiating team and the Public Procurement Oversight Board.

#### **(ii) Irregular Hire and Payment for Auctioneers Services**

The Management of the Corporation procured the services of an Auctioneer despite being aware that the Auctioneer did not have the capacity and a valid class B license to execute warrants as auctioneers, as required under the Auctioneers Act. Further, the Corporation made irregular payments vide cheque numbers 011328 and 011355 for Kshs.3,500,000 and 1,000,000 respectively, totalling Kshs.4,500,000 to the Auctioneer.

The payment of Kshs.4,500,000 to the Auctioneer was authorized the Managing Director, approved by the Financial Controller while the Corporation Secretary

endorsed the payment. As a result, the Board of Directors terminated the services of the three officers with effect from 4 July, 2019. The Board also recommended that the amount of Kshs.4,500,000 be recovered from the three officers but Management has not demonstrated or provided evidence of implementation of the Board's resolution.

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 matter 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

#### Board Representation in Other Companies

Although the Corporation control over 50% shareholding in four (4) out of the eight (8) companies as detailed below, the composition of the Board in the companies does not reflect this fact. Management has explained that only the Chief Executive Officer represents the Corporation in the Boards of the four (4) companies.

S/No	Descriptions	Amount (Kshs.)	% Ownership
1	Chemilil Sugar Company Limited	203,592,000	96.22
2	Development House	90,251,000	50.00
3	Muhoroni Sugar Company	41,342,000	74.17
4	Kenya Grain Growers Co-operative Union	1,123,000	1.92
5	Kenya Seed Company Limited	114,014,000	51.83
6	Pyrethrum Board of Kenya	36,000	<1
7	Kenya Planters Co-op Union	25,000	<1
8	Agro-Chemical and Food Limited	16,900,000	27
	<b>Total</b>	<b>467,283,000</b>	



No reason was provided for failure by the Corporation to have a sizeable representation in the Boards of the entities.

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

### **Responsibilities of Management and the Board of Directors**

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

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

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

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

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Corporation monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with

ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

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

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

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

  
**CPA Nancy Gathungu, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**11 January, 2022**



**XI. CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE  
FOR THE YEAR ENDED 30TH JUNE 2019**

	Note	2018-2019 KSH '000'	2017-2018 KSH '000'
<b>Revenue from Non-Exchange transactions</b>			
Revenue Grants	1	-	20,000
<b>Revenue from exchange transactions</b>			
Service units income	2	15,352	16,557
Farming Income	3	1,281,022	616,477
Rental revenue from facilities	4	32,231	28,064
Investments Income	5	19,400	15,200
Management Fee	6	-	4,244
Other Income	7	52,683	122,993
		<b>1,400,688</b>	<b>803,535</b>
		<b>1,400,688</b>	<b>823,535</b>
<b>Expenses</b>			
Employee costs	8	505,207	463,594
Depreciation and amortization expense	9	93,644	54,134
Repairs and maintenance	10	40,185	32,254
Subscription & Donations	11	648	187
Contracted services	12	35,871	73,111
General expenses	13	619,686	483,164
Board expenses	14	39,786	7,520
Finance costs	15	47,003	25,352
		<b>1,382,030</b>	<b>1,139,316</b>
<b>Other gains/(losses)</b>			
unrealized gain on changes in Biological Assets	16	35,596	84,692
Loss due to death of Livestock	17	(12,331)	(67,276)
Loss on foreign exchange transactions	18	(650)	(6)
<b>Surplus before tax</b>		<b>41,271</b>	<b>(298,371)</b>
Taxation		-	-
<b>Surplus for the year</b>		<b>41,271</b>	<b>(298,371)</b>

The notes set out on pages 17 to 26 form an integral part of the Financial Statements

**XII. CORPORATION STATEMENT OF FINANCIAL PERFORMANCE  
FOR THE YEAR ENDED 30TH JUNE 2019**

	Note	2018-2019 KSH '000'	2017-2018 KSH '000'
<b>Revenue from Non-Exchange transactions</b>			
Revenue Grants	1	-	20,000
<b>Revenue from exchange transactions</b>			
Service units income	2	15,352	16,557
Farming Income	3	1,281,022	616,477
Rental revenue from facilities	4	32,231	28,064
Investments Income	5	19,400	15,200
Management Fee	6	-	4,244
Other Income	7	49,218	120,768
		<b>1,397,223</b>	<b>801,310</b>
		<b>1,397,223</b>	<b>821,310</b>
<b>Expenses</b>			
Employee costs	8	502,849	460,903
Depreciation and amortization expense	9	93,567	54,033
Repairs and maintenance	10	40,185	32,254
Subscription & Donations	11	648	187
Contracted services	12	35,871	73,111
General expenses	13	619,566	483,044
Board expenses	14	39,786	6,714
Finance costs	15	46,488	24,901
		<b>1,378,960</b>	<b>1,135,147</b>
<b>Other gains/(losses)</b>			
Unrealize gain on changes in Biological Assets	16	35,596	84,692
Loss due to death of Livestock	17	(12,331)	(67,276)
Loss on foreign exchange transactions	18	(650)	(6)
<b>Surplus before tax</b>		<b>40,876</b>	<b>(296,427)</b>
<b>Surplus for the year</b>		<b>40,876</b>	<b>(296,427)</b>

The notes set out on pages 17 to 26 form an integral part of the Financial Statements

**XIII. CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
FOR THE YEAR ENDED 30TH JUNE 2019**

<b>Assets</b>				
<b>Current assets</b>				
	Note	<b>2018-2019</b>	<b>2017-2018</b>	
		<b>KSH '000'</b>	<b>KSH '000'</b>	
Cash and cash equivalents	19	194,349	82,403	
Receivables from exchange transactions	20	575,834	557,678	
Current Account with National Live stock Project	21	46,634	47,758	
Inventories	22	262,699	200,948	
		<b>1,079,516</b>	<b>888,787</b>	
<b>Non-current assets</b>				
Property, plant and equipment	23(a)	1,313,035	1,122,714	
Capital Work In progress	23(c)	123,145	296,925	
Investments	24	467,283	467,283	
Biological Assets	25	1,626,211	1,406,950	
		<b>3,529,673</b>	<b>3,293,873</b>	
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade & other payables-exchange transactions	26	1,230,097	1,348,701	
Borrowings	28(a)	124,323	115,815	
		<b>1,354,420</b>	<b>1,464,517</b>	
<b>Non-current liabilities</b>				
Borrowings	28(b)	229,207	233,853	
		<b>229,207</b>	<b>233,853</b>	
<b>Net assets</b>				
		<b>1,583,627</b>	<b>1,698,370</b>	
Grants Reserves	29	3,284,786	2,784,786	
Capital Reserve	30	12,775	12,775	
Reserves	31	447,701	447,701	
Accumulated (Deficit)		(719,702)	(760,988)	
		<b>3,025,560</b>	<b>2,484,273</b>	
		<b>4,609,189</b>	<b>4,182,643</b>	

The financial statements set out in pages 1 to 8 and notes thereof were approved by the Board of Directors on 10.09.2019 and signed on behalf of by:

Managing Director

Name: **Winnie Muthara**

Sign: 

Date: **30/09/2019**

Head of finance

Name: **Jonathan L. Ketchum**

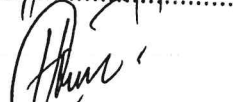
ICPAK No. 15114

Sign: 

Date: **30/09/2019**

Chairman

Name: **Hassan Osman**

Sign: 

Date: **30/09/2019**



**XIV. CORPORATION STATEMENT OF FINANCIAL POSITION  
AS AT 30TH JUNE 2019**

<b>Assets</b>				
<b>Current assets</b>		Note	2018-2019 KSH '000'	2017-2018 KSH '000'
Cash and cash equivalents		19	169,165	64,381
Receivables from exchange transactions		20	555,399	536,640
Current Account with National Live stock Project		21	46,634	47,758
Inventories		22	262,699	200,951
			<b>1,033,898</b>	<b>849,730</b>
<b>Non-current assets</b>				
Property, plant and equipment		23(a)	828,982	638,584
Capital Work In progress		23(c)	123,145	296,925
Investments		24	467,283	467,283
Biological Assets		25	1,626,211	1,406,950
Investment in Subsidiary-Lands Ltd			31,434	31,434
			<b>3,077,054</b>	<b>2,841,177</b>
			<b>4,110,952</b>	<b>3,690,906</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade & other payables-exchange transactions		26	1,227,417	1,346,021
Borrowings		28(a)	124,323	115,815
			<b>1,351,740</b>	<b>1,461,837</b>
<b>Non-current liabilities</b>				
Current Account with Subsidiary- Lands Ltd		27	533,759	541,670
Borrowings		28(b)	229,207	233,853
			<b>762,967</b>	<b>775,523</b>
Total Liabilities			<b>2,114,707</b>	<b>2,237,360</b>
<b>Net assets</b>			<b>1,996,246</b>	<b>1,453,548</b>
Grants Reserves		29	3,260,506	2,760,506
Accumulated (Deficit)			(1,264,262)	(841,711)
			<b>1,996,244</b>	<b>1,453,544</b>
			<b>4,110,952</b>	<b>3,690,903</b>

The financial statements set out in pages 1 to 8 and notes thereof were approved by the Board of Directors on 30.09.2019 and signed on behalf of by:

Managing Director

Name: A. Winnie Macharia

Head of finance

Jonathan L. Kertany

ICPAK No. 15114

Chairman

Hon. Hassan Omar

Sign [Signature]

Date: 30/09/2019

[Signature]  
30/09/2019

[Signature]  
30/09/2019

**XV. LANDS LTD**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30TH JUNE 2019**

<b>Assets</b>			<b>2018-2019</b>	<b>2017-2018</b>
<b>Current assets</b>		<b>Note</b>	<b>KSH '000'</b>	<b>KSH '000'</b>
Cash and cash equivalents		19	25,184	18,022
Receivables from exchange transactions		20	20,434	21,038
			<b>45,618</b>	<b>39,060</b>
<b>Non-current assets</b>				
Property, plant and equipment			484,053	484,130
Current Account with Parent Co.		27	533,759	541,670
			<b>1,017,812</b>	<b>1,025,800</b>
			<b>1,063,431</b>	<b>1,064,860</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade & other payables -exchange transactions		26	2,680	2,560
<b>Net assets</b>				
<b>Equity</b>				
Authorized and issued fully paid 1,000 Ord. Shares @20			20	20
Grants Reserves			55,694	55,694
Capital Reserve		30	12,775	12,775
Reserves		31	447,701	447,701
Accumulated surplus/ (Deficit)			544,560	546,110
			<b>1,060,751</b>	<b>1,062,300</b>
			<b>1,063,431</b>	<b>1,064,860</b>

The financial statements set out in pages 1 to 8 and notes thereof were approved by the Board of Directors on 29.09.2019 and signed on behalf of by:

Managing Director	Head of finance	Chairman
Name: <u>Dr. David E. Muthuri</u>	Name: <u>Jonathan L. Kiatany</u>	Name: <u>Hon. Hassan Osumu</u>
	ICPAK No. 15114	
Sign: <u>[Signature]</u>	Sign: <u>[Signature]</u>	Sign: <u>[Signature]</u>
Date: <u>30/09/2019</u>	Date: <u>30/9/2019</u>	Date: <u>30/09/2019</u>

**STATEMENT OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED 30TH JUNE 2019**

	<b>Equity (Grants) Kshs '000</b>	<b>Capital Reserves Kshs '000</b>	<b>Revaluation Reserve Kshs '000</b>	<b>Profit/ Loss Kshs '000</b>	<b>Total Kshs '000</b>
Balance as at 30th June 2017	2,732,617	12,775	447,701	(462,602)	2,730,490
Adjustments	-	-	-	-	-
Addition	-	-	-	-	-
Transfers to accumulated surplus/Deficit	52,170.00	-	-	-	52,170
Balance as at 30 June 2018	-	-	-	(298,371)	(298,371)
	2,784,787	12,775	447,701	(760,973)	2,484,289
Addition	500,000	-	-	-	500,000
Transfers to accumulated surplus/Deficit	-	-	-	41,271	41,271
Balance as at 30 June 2019	3,284,787	12,775	447,701	(719,702)	3,025,561



**XVI. STATEMENT OF CASHFLOWS  
FOR THE YEAR ENDED 30TH JUNE 2019**

	Note	2018-2019 KSHS '000'	2017-2018 KSHS '000'
<b>Cash flows from operating activities</b>			
Surplus for the year		41,271	(298,386)
Adjustments for:			
Depreciation of property and equipments	21(a)	128,334	54,149
Revaluation in fair value of biological assets	15	(251,861)	(17,413)
<b>Operating profit before working capital changes</b>		<b>(82,256)</b>	<b>(261,650)</b>
<b>Increase/(decrease) in:</b>			
Debtors'	19	(18,156)	30,559
Inventories	21	(61,752)	(69,955)
Biological assets	24	(219,261)	64,683
Injection to National livestock project	20	1,124	(15,346)
Creditors	25	(118,605)	80,787
Purchase of fixed assets	22(a)	(259,824)	(27,022)
Purchase of Livestock		(20,440)	(50,375)
		<b>(696,913)</b>	<b>13,331</b>
<b>Cash generated from operations</b>		<b>(779,170)</b>	<b>(248,320)</b>
Cash flows from investing activities			
Capital WIP	22(c)	173,781	(246,390)
<b>Net cash flows used in investing activities</b>		<b>173,781</b>	<b>(246,390)</b>
<b>Cash flows from financing activities</b>			
Borrowings	27	35,758	9,169
Government Grants	28	500,000	157,500
		<b>535,758</b>	<b>166,669</b>
<b>Net increase in cash and cash equivalents</b>		<b>(69,632)</b>	<b>(328,041)</b>
Beginning of period		82,403	410,444
Net increase in cash and cash equivalents	18	111,946	(328,041)
<b>Cash at the end</b>		<b>194,349</b>	<b>82,403</b>

**XVII. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL  
FOR THE YEAR ENDED 30TH JUNE 2019**

		Budget 2017-2018	Actual 2017-2018	Variance
Revenue	Note	Kshs '000	Kshs '000	Kshs '000
Revenue from services units	34(a)	39,651	15,352	24,299
Farming Income	34(b)	1,599,566	1,281,022	318,544
Rent/ Eco-Tourism Investment Income		167,437 48,670	32,231 19,400	135,206 29,270
other incomes		88,622	52,683	35,939
		<b>1,943,946</b>	<b>1,400,688</b>	<b>543,258</b>
<b>Expenses</b>				
Employees cost	34(c)	565,901	505,207	60,695
Depreciation and amortization		64,094	93,644	(29,550)
Repair and maintainance	34(d)	52,028	40,185	11,843
Subscription & Donation		785	648	137
Contracted Services		63,309	35,871	27,437
General Expences	34(e)	932,901	619,686	313,215
Board Expenses		33,413	39,786	(6,373)
Finance Costs	34(f)	41,422	47,003	(5,581)
<b>Total expenditure</b>		<b>1,753,853</b>	<b>1,382,030</b>	<b>371,823</b>

## **XVIII. NOTES TO THE FINANCIAL STATEMENTS**

### **A. Statement of compliance and basis of preparation**

The corporation's financial statements have been prepared in accordance with and in compliance with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Corporation and all values are rounded to the nearest thousand (Ksh000). The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis.

### **Reporting Entity**

Agricultural Development Corporation (ADC) (the corporation) is a body corporate incorporated in Kenya under Cap 444 of the laws of Kenya and is domiciled in Kenya. The consolidated financial statements comprise the Corporation and its Subsidiary Land Ltd (Wholly Owned) (Together referred to as the 'group' and individually referred to as 'Company')

### **Property, Plant and Equipment**

Property, plant and equipment are initially recorded at cost. All the property, plant and equipment are stated at historical cost less depreciation.

Depreciation has been charged on the book value of fixed assets at the following rates:-

Land	Nil
Building	5% p.a.
Fencing and water supply	10% p.a.
Furniture and equipment	20% p.a.
Computers	30% p.a.
Motor vehicles and tractors	25% p.a.
Permanent improvements in subsidiary company	2.5% p.a.
Farm equipment and machinery	20% p.a.
Small tools	50% p.a.
Land reclamation and drainage	20% p.a.

### **Taxation**

There is no tax Liability arising because the Corporation has been exempted from taxation as per Kenya Gazette Supplement Number 59 of 21<sup>st</sup> April, 1986

### **Harvested crops and cultivation**

Harvested crops and cultivation are valued at net realisable value. Costs comprise expenditure incurred in normal course of business including direct material cost, labour and production overheads wherever appropriate. Net realisable value is the price at which the stocks can be realised in normal course of business after allowing for costs of realisation.



## Notes to Financial Statements (Continued)

### B. Summary of significant accounting policies

#### *Revenue recognition*

##### **i) Revenue from non-exchange transactions**

Revenues from non-exchange are recognized when it is probable that the economic benefits or services potential associated with the asset will flow to the Corporation and the fair value of the asset can be measured reliably.

Revenue from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the assets (cash, good, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the Corporation and can be measured reliably.

#### **Government Grants**

##### *Recurrent Grant*

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate recurrent expenditure financial support to the Corporation with no future related costs are recognized in the statement of financial performance in the period in which they become receivable.

##### *Development Grant*

Government grants whose primary condition is that the Corporation should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the statement of financial position and transferred to capital reserve on completion/ acquisition of the non-current asset.

##### **ii) Revenue from exchange transactions**

##### *Rendering of services*

The Corporation has three service units Engineering service, Farm Advisory Management Services (FAMS) and Agribusiness. Engineering services unit deal with repair of equipments and fabrication of farm implements, during the year Ksh 15,352,202 was realized.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

##### *Farming Income*

Revenue from the sale of farm outputs is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the Corporation.

##### *Dividends and Other external Investments*

Dividends or similar distributions are recognized when the shareholder's or the Corporation's right to receive payments is established. The Corporation receives dividends from Kenya Seed Company where it has a 52% shareholding. Further, the Corporation has a joint ownership of the Development with Agricultural Development Corporation where process on the rented space is shared on equally.

## **Notes to Financial Statements (Continued)**

### ***Rental income***

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue.

### **b) Budget information**

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the Corporation. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or Corporation differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

### **c) Investment property**

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property.

Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment properties are measured using the cost model and are depreciated over a 30-year period.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition.

Transfers are made to or from investment property only when there is a change in use.

### **d) Property, plant and equipment**

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the Corporation recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

### **e) Leases**

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Corporation. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

## Notes to Financial Statements (Continued)

### f) Intangible assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

The useful life of the intangible assets is assessed as either finite or indefinite.

### i) Financial liabilities

#### *Initial recognition and measurement*

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Corporation determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

#### *Loans and borrowing*

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

IPSAS 29.65

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

### g) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and condition is accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

## **Notes to Financial Statements (Continued)**

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Corporation.

### **h) Provisions**

Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Corporation expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

### **i) Contingent liabilities**

The Corporation did not have any contingent liability. However, in case of any contingencies details are disclosed in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

### **Contingent assets**

The Company did not have any contingent asset. However, In case of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company discloser is made in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

### **j) Nature and purpose of reserves**

The Corporation creates and maintains reserves in terms of specific requirements. Corporation has got capital reserves from Agricultural settlement fund and revaluation reserves from revolution of land.

### **k) Changes in accounting policies and estimates**

The Corporation recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

### **l) Employee benefits**

#### **Retirement benefit plans**

The Corporation provides retirement benefits for its employees. Defined contribution plans are post employment benefit plans under which the Corporation pays fixed contributions into a separate Company (a fund), and will have no legal or constructive obligation to pay further contributions if the



## **Notes to Financial Statements (Continued)**

fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

### **m) Borrowing costs**

Borrowing costs Include interest, amortization of discounts or premiums on borrowing, and amortization of ancillary costs incurred in the arrangements of borrowing. The Corporation adopts expenses model where borrowing costs are charged to expenses in the period when they are incurred.

### **n) Related parties**

The Corporation regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Corporation, or vice versa. Members of key management are regarded as related parties and comprise of the Board of directors, Managing Director and senior managers

### **o) Service concession arrangements**

The Corporation analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Corporation recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Corporation also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

### **p) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprest and advances to authorised staff which were not surrendered or accounted for at the end of the financial year.

### **Trade and other receivables**

Trade receivables are carried at their original invoiced amount less an estimate made for bad and doubtful receivables based on a review of all outstanding amounts, on an account by account basis, at the year end. Bad debts are written off in the year in which they are identified as irrecoverable.

## Notes to Financial Statements (Continued)

### r) Trade and other payable

Accounts payable are non interest bearing financial liabilities and are carried at amortized cost, which is measured at the fair or contractual value of the consideration to be paid in future in respect of goods and services supplied by the suppliers, whether billed to the Corporation or not, less any payments made to the suppliers.

### s) Biological assets

Living plants and animals with probable future economic benefits which are owned and controlled by the corporation are accounted for as biological assets. Harvested products from the Corporation's biological assets and agricultural produce are measured on initial recognition and at each reporting date at their fair value less estimated point of sale costs.

The fair value of the biological assets and agricultural produce that have an active market is determined using the quoted price in the market. The fair value of the biological assets that do not have an active market is determined at the present value of the expected net cash flows discounted at the current market determined pre-tax borrowing rate. The fair value of the Corporation's newly planted crops is estimated by reference to costs incurred on the crops up to the reporting date.

Point of sale costs include commissions to brokers and dealers, levies by regulatory agencies and transfer taxes and duties but exclude transport and other costs necessary to get the assets to the market.

For financial reporting purposes, the Corporation classifies its biological assets as follows:

#### (i) *Consumable biological assets*

Consumable biological assets are those that are to be harvested as agricultural produce or to be sold as biological assets. These are seasonal crops grown by the Corporation i.e. maize, wheat, sunflower, pasture

#### (ii) *Bearer biological assets*

Other biological assets are classified as bearer biological assets.

Gains or losses arising on initial recognition of biological assets and agricultural produce and from changes in fair value less point of sale costs are recognized in the income statement for the year.

### u) Comparative figures

Where necessary comparative figures for the previous financial year have been included.

### v) Significant judgments and sources of estimation uncertainty

The preparation of the Corporation's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

### *Estimates and assumptions*

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and

## Notes to Financial Statements (Continued)

liabilities within the next financial year, are described below. The Corporation based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Corporation. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

### *Useful lives and residual values*

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Corporation
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

### **w) Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended 30<sup>th</sup> June 2019.

### **x) Financial Risk management**

The Corporation operates through borrowing from financial institutions which brings exposure to variety of financial risks including credit risk and effects of changes in debt and interest rates. The Corporation's overall risk management objectives focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on its performance.

Risk management is carried out by a select committee under the guidance of the Board under the audit and risk committee. The Committee review the market trends and information available to evaluate the potential exposures. After which it develop strategies of mitigating against market risks. The Board committee provide policies for overall risk management.

#### **i) Market Risk**

Market risk is the risk that the fair value of instrument will fluctuate due to change in market valuables such as interest rates and foreign exchange rates. The objective of market risk management policy is to protect and enhance the statement of financial position and income statement by managing and controlling market risk exposure within acceptable parameters and to optimize the funding of business operations and facilitate capital expansion.

##### **a) Interest rate risk**

Interest rate risks arise from fluctuation in the bank borrowing rate. After the Government introduced capping of base rate charged by banks, this risk has become easy to manage since there is no much fluctuations in the interest rate.

##### **b) Exchange risks**

Though the Corporation operates in Kenyan Currency, It's exposed to risks arising from various currency exposures, primarily with respect to Eco-tourism activities in Galana ranch where customers pay in US Dollar.

## Notes to Financial Statements (Continued)

### ii) Liquidity Risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of Corporation's short medium and long term funding and liquidity requirements. The Corporation manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching profiles of financial assets and Liabilities.

### iii) Operational risk

Operational risk is the risk of direct and indirect loss arising from a wide variety of causes associated with the Corporation's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risk such as legal and regulatory requirements and generally acceptable standards of corporate behaviour. The Corporation seeks to ensure that the key operational risk are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor, control and report such risks.

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

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management.

This responsibility is supported by the development of overall Corporation standards for management of operational risk in the following area:

- Requirement for appropriate segregation of duties, including the independent authorization of transactions.
- Requirements for reconciliation and monitoring of transactions.
- Compliance with regulatory framework.
- Documentation of controls and procedures.
- Training and professional development.
- Development of contingency plans.
- Risk mitigation, including insurance where this is effective.

Operational risk is managed by a programme of regular reviews undertaken by the Internal Audit and the results of the reviews are discussed with the management, with summaries submitted to the Audit Committee.



## Notes to Financial Statements (Continued)

### 1. Income from Non- Exchange transaction

The Government in the year under review did not receive recurrent grants from the Ministry of Agriculture.

	<u>Consolidated</u>		<u>Company</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2017</u>
	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>
State Department of Agriculture	-	-	-	-
State Department of Agriculture	-	20,000	-	20,000
	-	20,000	-	20,000

### 2. Service units incomes

	<u>Consolidated</u>		<u>Company</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>
Contract Income	10,136	13,111	10,136	13,111
Transport Income	5,216	3,446	5,216	3,446
<b>Total</b>	<b>15,352</b>	<b>16,557</b>	<b>15,352</b>	<b>16,557</b>

### 3. Farming Income

	<u>Consolidated</u>		<u>Company</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>
Sale of Commercial maize	282,749	34,885	282,749	34,885
Sale of seed maize	633,214	296,546	633,214	296,546
Other Farm produce	150,651	101,609	150,651	101,609
Sale of steers	64,033	43,820	64,033	43,820
Sales of in-calf Heifer	9,160	8,215	9,160	8,215
Other Livestock	23,126	22,362	23,126	22,362
Sale of Milk	74,830	76,564	74,830	76,564
Sale of other animal products	20,296	3,345	20,296	3,345
Sale of Hay	22,792	28,688	22,792	28,688
Grazing fees	171	442	171	442
<b>Total</b>	<b>1,281,022</b>	<b>616,477</b>	<b>1,281,022</b>	<b>616,477</b>

Note; sale of seed maize include kshs. 24,004,960 of ADC maize variety and Kshs.609,209,045 to Kenya Seed Co. respectively during the year.

### 4. Rental Revenue from Facilities

	<u>Consolidated</u>		<u>Company</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>
Lease Rental & Rent of Properties	32,231	28,064	32,231	28,064
<b>Total</b>	<b>32,231</b>	<b>28,064</b>	<b>32,231</b>	<b>28,064</b>

### 5. Investments income

	<u>Consolidated</u>		<u>Company</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>
Proceeds from Development house	19,400	15,200	19,400	15,200
	19400	15200	19400	15200

## 6. Management fees

	<u>Consolidated</u>		<u>Company</u>		<u>Lands Ltd</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>
Management fees	-	4,244	-	4,244	-	-

Management fees relates to fees charged by ADC to National Drought Management Authority for their animals kept at ADC Galana Ranch

## 7. Other income

	<u>Consolidated</u>		<u>Company</u>		<u>Lands Ltd</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>
Sale of Feeds	39,803	44,844	39,803	44,844	-	-
Training Fees AI center	755.47	-	755.47	-	-	-
Miscellaneous Income	12,124	78,149	8,659	78,149	3,465	4,618
<b>Total</b>	<b>52,683</b>	<b>122,993</b>	<b>49,218</b>	<b>122,993</b>	<b>3,465</b>	<b>4,618</b>

Miscellaneous income include Kshs. 3,416,060 from galana on impounded charcoal and illegal grazers, 3,465,005 from lands ltd on survey fees by Lands Ltd .

## 8. Employee costs

	<u>Consolidated</u>		<u>Company</u>		<u>Lands Ltd</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>
Salaries	107,778	104,334	106,736	104,334	1,042	1,188
Wages	164,212	147,115	164,212	147,115	-	-
NSSF	2,269	2,371	2,263	2,371	6	7
Leave Expenses	1,491	1,568	1,478	1,568	12	12
House allowance	60,031	58,851	59,241	58,851	790	900
Commuter allowance	10,427	10,095	10,184	10,095	243	276
Responsibility allowance	10,784	10,128	10,684	10,128	100	120
Gratuities	15,048	14,006	15,048	14,006	-	-
Terminal dues	1,509	775	1,509	775	-	-
Administrative wages	60,457	46,957	60,457	46,957	-	-
Pension contribution	11,298	10,811	11,134	10,811	164	187
Acting Allowance	680	366	680	366	-	-
Hardship Allowance	2,317	1,931	2,317	1,931	-	-
Duty Allowance	2,802	2,917	2,802	2,917	-	-
Education & training	1,272	901	1,272	901	-	-
Medical expenses	20,065	19,327	20,065	19,327	-	-
Free Issues to staff	6,596	4,339	6,596	4,339	-	-
Travel, accomodation, subsistence and other	26,172	26,804	26,172	26,804	-	-
<b>Total</b>	<b>505,207</b>	<b>463,596</b>	<b>502,849</b>	<b>463,597</b>	<b>2,358</b>	<b>2,691</b>

## Notes to Financial Statements (Continued)

### 9. Depreciation and amortization expense

	Consolidated		Company		Lands Ltd	
	2019	2018	2019	2019	2019	2018
	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000
Property, plant and equipment	93,644	54,149	93,567	54,048	77	101
<b>Total</b>	<b>93,644</b>	<b>54,149</b>	<b>93,567</b>	<b>54,048</b>	<b>77</b>	<b>101</b>

### 10. Repairs and maintenance

	Consolidated		Company		Lands Ltd	
	2019	2018	2019	2018	2019	2018
	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000
Property	5,911	16,319	5,911	16,319	-	-
Machinery & Equipment	29,175	10,997	29,175	10,997	-	-
Vehicles	-	-	-	-	-	-
<b>Total</b>	<b>40,185</b>	<b>32,254</b>	<b>40,185</b>	<b>32,254</b>	<b>-</b>	<b>-</b>

### 11. Subscription and Donations

	Consolidated		Company		Lands Ltd	
	2019	2018	2019	2018	2019	2018
	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000
Donations	648	187	648	187	-	-

### 12. Contracted services

Contract Services relate to expenditure incurred on land preparation contracts for Ploughing, harrowing, Planting and spraying among others.

	Consolidated		Company		Lands Ltd	
	2018	2019	2018	2019	2018	2019
	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000
Contracts Costs	35,871	73,111	35,871	73,111	-	-
<b>Total</b>	<b>35,871</b>	<b>73,111</b>	<b>35,871</b>	<b>73,111</b>	<b>0</b>	<b>0</b>

# Notes to Financial Statements Continued

## 19. Cash and Cash Equivalents

### 19 a) Bank

#### Name of the Bank

Consolidated Bank

National Bank

Kenya Com Bank

### 19b) Cash-in-hand

#### Total

	Consolidated		Company		Lands Ltd	
	2019	2018	2019	2018	2019	2018
	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000
Consolidated Bank	114,605	14,973	114,605	14,973	-	-
National Bank	26,154	60,159	970	42,137	25,184	18,022
Kenya Com Bank	52,921	6,337	52,921	6,337	-	-
	193,680	81,469	168,496	63,447	25,184	18,022
	669	934	669	934	-	-
<b>Total</b>	<b>194,349</b>	<b>82,403</b>	<b>169,165</b>	<b>64,381</b>	<b>25,184</b>	<b>18,022</b>

## 20. Receivables from Exchange Transactions

	Consolidated		Company		Lands Ltd	
	Restated	Restated	Restated	Restated	Restated	Restated
	2019	2018	2019	2018	2019	2018
	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000
Trade Debtors	474,892	501,560	454,443	480,507	20,449	21,053
Trade Debtors	(52,499)	(52,499)	(51,962)	(51,962)	(537)	(537)
Specific provision	(4,909)	(4,909)	(4,909)	(4,909)	-	-
General Provision	417,485	444,151	397,572	423,636	19,912	20,516
<b>Total Current Receivables</b>	<b>417,485</b>	<b>444,151</b>	<b>397,572</b>	<b>423,636</b>	<b>19,912</b>	<b>20,516</b>
Non- Trade Debtors	158,350	113,527	157,827	113,004	522	522
Non - Trade Debtors	575,835	557,678	555,399	536,640	20,434	21,038
<b>Total</b>	<b>575,835</b>	<b>557,678</b>	<b>555,399</b>	<b>536,640</b>	<b>20,434</b>	<b>21,038</b>



## Notes to Financial Statements (Continued)

### 21. Current account with NLP

The Government provided funds for emergency Livestock offtake in arid areas. During the year the Corporation incurred Kshs.46,034,035 on maintenance and daily running of the projects operation.

	<u>2019</u>	<u>2018</u>
	<u>Kshs.'000'</u>	<u>Kshs.'000'</u>
NLP Current Account	244,634	245,758
Grants	(198,000)	(198,000)
<b>TOTAL</b>	<u>46,634</u>	<u>47,758</u>

### 22. Inventories

	<u>2019</u>	<u>2018</u>
	<u>Kshs.'000'</u>	<u>Kshs.'000'</u>
Building materials	1,369	1,700
Fencing & Water Supplies	7,865	7,998
Fertilizer	7,698	11,384
Feedstuffs & Minerals	1,437	1,016
Herbicides & Insecticides	31,386	16,113
Packing Materials	2,870	1,502
Petroleum Products	1,363	1,205
Machinery & Equipment Spares	7,230	6,870
Vehicles & Tractor Spares	9,943	10,131
Veterinary Products	41,471	4,556
Seeds	39,419	32,244
Sundries	1,682	1,865
Feedmill Raw Materials	4,140	2,033
Feedmill Finished products	-	537
Stationery	-	671
Laboratory Chemicals	-	688
Lubricants	-	-
Embroy Transafer	336	336
Harvested Crops	109,676	105,283
Provision for Obsolete stock	(5,188)	(5,184)
<b>Total</b>	<u>262,698</u>	<u>200,947</u>

Notes to Financial Statements (Continued)  
23(a). PROPERTY PLANT & EQUIPMENT

COST	Leased Farms		Farms Managed by ADC		Buildings		Fencing		Farm Equipment		Furniture & Equipment		Motor Vehicles		Small Tools		Land Reclamation		Totals	
	Kshs '000'	Shs	Kshs '000'	Shs	Kshs '000'	Shs	Kshs '000'	Shs	Kshs '000'	Shs	Kshs '000'	Shs	Kshs '000'	Shs	Kshs '000'	Shs	Kshs '000'	Shs	Kshs '000'	Shs
Cost																				
At 1st July 2017	454		521,513		128,576		68,638		318,198		49,457		431,385		4,162		9,177.00		1,531,560	
Additions	-		-		292		70		12,966		231		10,516		72		3,168.00		27,315.40	
At 30th June 2018	454		521,513		576,594		86,233		331,164		49,688		441,901		4,234		12,345.00		2,024,126	
Additions	-		-		58,007		139		128,200		2,960		70,197		239		82		259,824	
At 30th June, 2019	454		521,513		634,601		86,372		459,364		52,648		512,098		4,473		12,427		2,283,950	
Depreciation	-		-		-		-		-		-		-		-		-		-	
At 1st July 2017	206		-		64,144		64,530		265,032		42,043		399,892		4,081		7,349.00		847,277	
Depreciation	7		-		3,236		418		13,226		1,529		10,502		77		999		29,994	
At 30 June 2018	213		-		67,380		64,948		278,258		43,572		410,394		4,158		8,348		877,271	
Depreciation	-		-		27,242		1,967		36,221		1,815		25,426		158		816		93,644	
At 30th June, 2019	213		-		94,622		66,915		314,479		45,387		435,820		4,316		9,164		970,915	
Net book values	-		-		-		-		-		-		-		-		-		-	
At 30th June 2019	241		521,513		539,979		19,457		144,885		7,261		76,278		158		3,263		1,313,035	
At 30th June 2018	241		521,513		486,828		19,533		52,906		6,116		31,507		76		3,997		1,122,716	

# Notes to Financial Statements (Continued)

Adjustments	-	448,018	17,595	12,966	235	10,516	72	3,168	492,570
At 30th June 2018	37,910	576,594	86,233	331,164	49,688	441,901	4,234	12,345	1,534,686
Additions	-	-	-	-	-	-	-	-	-
Disposals	-	58,007	139	128,200	2,960	70,197	239	82	259,824
At 30 June 2019	37,910	634,601	86,372	459,364	52,648	512,098	4,473	12,427	1,794,509
DEPRECIATION	-	-	-	-	-	-	-	-	-
At 1st July 2017	-	63,839	65,729	265,177	42,044	393,702	4,089	7,349	841,699
Charge for the year	-	25,638	2,051	13,042	1,529	10,703	72	999	54,034
Disposals	-	-	-	-	-	-	-	-	-
At 30th June 2018	-	89,477	67,780	278,219	43,573	404,405	4,161	8,348	895,733
Charge for the year	-	27,242	1,967	36,221	1,815	25,349	158	816	93,567
At 30th June 2019	-	116,719	69,748	314,440	45,388	429,754	4,318	9,164	989,300
NET BOOK VALUE	-	-	-	-	-	-	-	-	-
At 30th June 2019	37,910	517,882	16,624	144,924	7,260	82,344	155	3,263	828,982
At 30th June 2018	37,910	487,117	18,454	52,947	6,119	32,108	72	3,997	638,724

# Notes to Financial Statements (Continued)

## 23(c). Capital Work In Progress

Relates to in-complete capital works .

	2019 Kshs.'000'	2018 Kshs.'000'
Eco House (ADC Chorlim)	1,022	294
Eco House (ADC Nai )	2,329	7,182
Eco House (ADC Olingantongo)	8,730	20,904
Eco House (ADC Sabwani)	51,897	1,157
Maize Shade (ADC Feedmill)	1,157	22,057
Dam ans Store (ADC Suam Orchards )	23,395	9,585
Katuke	11,514	233
Kitchen (ADC A I Centre)	233	215,085
Bull Station (ADC Sabwani)	0	2,101
Bull station (Nitrogen plant)	2,712	266
Shade (ADC Engineering Services)	266	2,889
Office Block (ADC Molo)	3,957	489
Japata	1,336	5,111
Sirikwa	5,111	-
Namandala	935	-
Seed Unit( Construction of a Godown)	8,549	8,549
	<b>123,145</b>	<b>295,903</b>

## 24. Investments

	2019 Kshs.'000'	2018 Kshs.'000'
Opening balance at 1 June 2017	467,283	467,283
Balance as at 30th June 2018	467,283	467,283
Balance as at 30 June 2019	467,283	467,283

## 25. Biological Assets

	2019 Kshs.'000'	2018 Kshs.'000'
Beef Cattle	416,538	392,449
Dairy Cattle	179,013	167,732
Pigs	490	690
Sheep	18,020	16,231
Goats	10,583	9,687
Horses	760	590
Dogs	0	67
Donkey	67	-
Poultry	683	290
Breeding Bulls	3,712	1,033
Crops	996,347	818,183
<b>TOTAL</b>	<b>1,626,213</b>	<b>1,406,950</b>

## 26. Trade and other payables from exchange transactions

	Consolidated		Company		Lands Ltd	
	2019 Kshs'000	2018 Kshs'000	2019 Kshs'000	2018 Kshs'000	2019 Kshs'000	2018 Kshs'000
Trade Creditors	812,182	895,515	812,182	895,515	-	-
Non-trade creditors	417,915	453,186	415,235	450,506	2,680	2,680
	<b>1,230,097</b>	<b>1,348,701</b>	<b>1,227,417</b>	<b>1,346,021</b>	<b>2,440</b>	<b>2,680</b>



## Notes to Financial Statements (Continued)

### 27. Current Account- Lands Ltd

This is a control account that reflects the financial transactions between the Subsidiary Company (Lands Ltd) and Its Parent Company ADC (Agricultural Development Corporation).

### 28.(a) Borrowings

	2019	2018
(a)Total current borrowings	Kshs 000	Kshs 000
AFC Livestock Loan	10.00	0
AFC Crop Seasonal Loan	124,323	115,815
	<u>124,323</u>	<u>115,815</u>

#### AFC Livestock Loan

Agricultural Finance Corporation advanced ADC Kshs 120,000,000 to assist in its operations. The Loan was payable in 12 Months at an interest rate of 12% per annum payable in a single bullet payment of Kshs. 134,403,600. The Loan was secured by LR No. 5532 but was fully settled as at 30th June 2019.

#### AFC Crop Seasonal Loan

Agricultural Finance Corporation granted the ADC 150,000,000 Guaranteed by Corporation land L.R No.5532 Trans Nzoia and repayable within a period of 12 Months at an interest rate of 12%. The Loan was to be services through the Corporation's share of rent from Development House which is Jointly owed by the two Corporations.

### 28 (b)Total non-current borrowings

	2018	2017
	Kshs 000	Kshs 000
KCB TERM LOANS	229,207	233,853

#### KCB Term Loan

In 2014 the Corporation restructured its facilities held with KCB by amalgamating them into a term loan payable in 48 months at an interest rate of Bank's base rate plus 2%. The loan was secured by L.R No. 2993, L.R No. 5722, L.R No.5345/1 and L.R No. 9078/2 of the Corporation's Land Parcels.

## Notes to Financial Statements (Continued)

### 29. Grants

	<u>2019</u>	<u>2018</u>
	<u>KShs'000'</u>	<u>KShs'000'</u>
Government of Kenya	3,039,499	2,539,499
British Government	67,582	67,582
ASARECCA	1,898	1,898
NIB	11,700	11,700
UNDP	139,827	139,827
<b>Grants to ADC</b>	<b>3,260,506</b>	<b>2,760,506</b>
Grants to subsidiary	24,280	24,280
<b>ADC and Subsidiary</b>	<b>3,284,786</b>	<b>2,784,786</b>

The Corporation received Kshs. 100,000,000 from the Ministry of Agriculture Livestock and Fisheries state department of Livestock for the Bull Station and Kshs. 400,000,000 from Ministry of Agriculture State Department of Crop Development for Mechanization of Agricultural Development

### 30. Capital Reserves

Reserves comprise the General Reserve Fund taken over from Agricultural Settlement Fund - 1976 net of Government Trust Fund on farms taken over from Agricultural Settlement Trust.

### 31. Revaluation Reserve

Revaluation reserves relates to a revaluation surplus on two farms LR. Nos. 5337,5345,8855/3,0297, 5345/2,5345/3,8855/R in ADC Ol'ngatongo Farm and L.R No. 2043/2 ADC Sabwani

### 32. Related Party Transaction

#### I) Board members of the Corporation

	<u>Consolidated</u>		<u>Company</u>		<u>Lands</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>	<u>Shs 000</u>
Emoluments	30,938	5,142	30,938	4,599	0	548
Milage/Travelling	7,964	2,378	7,964	2,120	0	258
Insurance	799.60	0	800	0	-	-
Airtime	84.00	0	84	0	-	-
<b>Total</b>	<b>39,786</b>	<b>7,520</b>	<b>39,786</b>	<b>6,719</b>	<b>0</b>	<b>806</b>

#### ii) Key Management

	<u>Consolidated</u>		<u>Company</u>		<u>Lands</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	<u>Kshs'000'</u>	<u>Kshs'000'</u>	<u>Kshs'000'</u>	<u>Kshs'000'</u>	<u>Kshs'000'</u>	<u>Kshs'000'</u>
Gross Salary	17,475	23,701	17,475	23,701	-	-
Pension	277	213	277	213	-	-
Gratuity	2,025	3,144	2,025	3,144	-	-
	<b>19,777</b>	<b>27,058</b>	<b>19,777</b>	<b>27,058</b>	<b>-</b>	<b>-</b>

### 33. Contingent Liabilities

There are certain pending legal litigations brought against the Corporation as at 30th June 2019, among them is case number HCC No.156 where the Corporation was held jointly liable with the Office of the Anthony General and ordered to pay Kshs. 100,000,000 in damages. However, the case was appealed and we await the outcome of the appeal. In Addition, the Corporation has not accrued Kshs. 67,502,492 being fee note from one of it's advocate J.J Chesaro & Co. Adv being fees charged. Due to an objection raised on the value of land in question upon which the fee note was computed. In the opinion of the directors and after taking appropriate legal advice, the outcome of these legal claims will not result to any significant loss beyond the amounts provided for in these financial statements and will not materially affect the Corporation's financial ability.

### 34. Un Accrued Debtors

The Government in execution of Galana Kulalu Food project stopped any operation for these leases. This brought uncertainty on collectability of revenue amounting to Kshs 273.6M since some of the lessees went to court to protest the decision and sued for breach of contract. The management considered it not prudent to continue accruing revenue from these leases until these uncertainties are resolved.

### 35. Events after the reporting period

There are no material non-adjusting events after the reporting date.

# **XIX. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Responsible officer	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.1	<b>Reposessed Land</b> i) As reported in the previous year, property, Plant and equipment balance of 684,283,000 as at 30 <sup>th</sup> June 2017 includes farms managed by the Corporation valued at Kshs. 37,910,000. These farms, referred to as ADC Private Forest Ndabibi L.R. Nos 7281/3 & 20591/86, relates 4000 acres of land reposessed from allottees who had been unable to pay the allotment fees. In addition, land L.R. 20591/86 in Ndabibi and the parcel in Molo do not have ownership documents including title deeds, while LR 7281/3 has been encroached on by squatters although the Corporation has secured the title deed. Further, and according to information available, the process of exchanging 700 acres in Molo with 1,000 acres of the Corporation's land at Ndabibi had not been finalized as at 30 <sup>th</sup> June 2017. In the absence of title deeds for the parcel of land in Molo and in Ndabibi, it has not been possible to confirm their ownership.	<ul style="list-style-type: none"> <li>In the 18<sup>th</sup> report on implementation of PIC Committee recommendation on the accounts, of State Corporations, it was recommended that the Inspectorate of State Corporation investigate the process of exchange of the two farms Ndabibi and Molo. The corporation is still awaiting this report to enable completion of the transfer of property and issuance of title deed.</li> <li>The Corporation in collaboration with the Government of Kenya and the County Government of Nakuru have agreed to establish a police post in the farm in order to address the issue of Security and squatters and enable the Corporation to utilize the land</li> <li>In order to enhance transfer and processing of titles we have launched deed plan for LR No. 20591/119 through our lawyer</li> </ul>	Corporation's Secretary	Not resolved	30 <sup>th</sup> June 2020



Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Responsible officer	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p><b>ii) Home Farm Land</b> As reported also in the previous year, the Corporation land's net book value of Kshs. 521,513,000 as at 30<sup>th</sup> June 2017 disclosed under Note 22(a) excludes the value of land L.R No. 10668 measuring about 2,908.42 acres known as Home Farm. Further, the Corporation does not have ownership documents to this parcel of land. It is also not clear and the management has not explained how the Home Farm parcel of land was allocated to private developers in year 1994 and the effects on the operations of the Corporation in fulfilment of its mandate</p>	<p><i>Cheptumo and Company Advocates for certificate of Title to the Ministry of Lands &amp; Housing. This Certificate of Title will then be transferred to the owner of Asante Farm in exchange for the title of Asante Farm. The issue of Home Farm LR10668 is under investigation by the Ethics and Anti Corruption (EACC). The Corporation is awaiting the conclusion of the same.</i></p>	Corporation's Secretary	Not Resolved	30 <sup>th</sup> June 2020
	<p><b>ii) Garissa Irrigation Project Land</b> The Property, plant and equipment balance of Kshs.684,283,000 as at 30 June 2017 still exclude the value of land measuring 319.4 hectares located in Garissa municipality whose value has not been determined, despite a disclosure under Note 19 to the financial statements for 2015/2016 that the unit's assets were merged and included in the Corporation's financial</p>	<p>By the Time this land was handed over to the Corporation, there was no value attached to it. However, the Corporation has since secured a title deed and efforts are being made to have it valued and included in the Corporation's books</p>	Corporation Secretary	Not Resolved	30 <sup>th</sup> June 2020

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Responsible officer	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	statements. In view of the foregoing, the completeness and accuracy of property, plant and equipment balance of Kshs. 684,283,000 cannot be ascertained				
2	<b>Capital Work-in-progress</b> As reported in the previous year and as highlighted under Note 22(c) to the financial statements, the capital work-in-progress balance of Kshs. 553,618,000 as at 30 June 2017 includes a construction project at Suam Orchard in Kitale valued at Kshs. 9,978,000 that was started in the year 2006. In addition, the capital-work-in Progress includes an amount of Kshs. 4,899,287 relating to projects that have remained idle for the last five (6) years. In the Circumstances, I am unable to confirm the carrying value of the	The corporation has had financial constraints to facilitate completion of these projects. However, efforts have been made to complete most of the projects especially the Eco-houses to make them habitable and we are in the process of evaluation for possible issuance of completion certificate to facilitate capitalization.	Head of Business Development)	Resolved	30 <sup>st</sup> June 2019



Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Responsible officer	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	capital works in progress reflected in the financial statements of Kshs. 553,618,000 as a 30 <sup>th</sup> June 2017.				
3.	<p><b>Investments</b> The investment balance of Kshs. 467,283,000 reflected in the statements of position as at 30<sup>th</sup> June 2017 includes amounts relating to investments in shares held in chemelil Sugar Co. Ltd Kshs. 203,592,000, Development House Kshs. 90,251,000, Muhoroni Sugar Company Kshs. 41,342,000, Kenya Co-operative creameries Kshs 4,151,000, Kenya Grain Grower's Co-op Union Kshs.1,404,000, Kenya Seed Company Ltd Kshs. 114,014,000, Pyrethrum Board of Kenya Kshs 36,000, Kenya Planters' Co-op Union Kshs.31,000 and Agro-Chemical and Food Ltd Kshs. 16,900,000 which were acquired between 1975 and 1995. Information available indicates that Muhoroni Sugar Company, Kenya Grain Growers Co-op Union with investments totalling Kshs. 42,777,000 are either in receivership or liquidation. In addition,</p>	<p>As disclosed in the financial statements under note 35. The Corporation did not provide for dividend due to a change in dividend policy by Kenya Seed Company as the company pays dividend as a percentage of profits for the year contrary to the earlier policy where the company adopted a fixed dividend policy.</p> <p>The Corporation upon Information that Kenya Co-operative creameries is now wholly owned by the Government as the New KCC did a 100% provision for amortization of its share in KCC hence writing them off.</p> <p>For the other companies the corporation is hopeful that some of the companies that have since been restructured will turn around</p>	Financial Controller	Not Resolved	30 <sup>th</sup> June 2020

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Responsible officer	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	Chemelil Sugar Company, Kenya Planters Co-op Union and Agro Chemicals & Food Company with the Corporation's investments totalling Kshs.220, 492,000 have been making losses and have not paid dividend for a considerably long time. The value of the investments in these companies is therefore doubtful and may not be recovered. However, no provision has been made in the financial statements for the diminution in value of the investment.				
4.	<p><b>Biological assets</b></p> <p><b>i) Valuation</b></p> <p>The consolidated statements of financial position reflects biological assets valued Kshs. 1,471,633,000 as at 30 June, 2017. Included in this figure is an amount of Kshs. 989,033,000 relating to crops as disclosed in Note 24 to financial statements. It was noted that the value 'special crops-plantations' as at the end of the year under review remained the same at Kshs. 772,336,240 as was similarly reported in the financial year 2015/2016. No valuation report was provided for audit to confirm how the value of kshs. 772,336,240</p>	<p>The Corporation has been valuing this class of special Crops- Plantations which is mainly trees based on the age of these trees. However, and to conform with the provisions of IAS 40, we sort guidance from the Kenya Forestry Service(<i>appendix</i>) on the best practice in carrying out this exercise unfortunately though they were willing to guide on the same it was not</p>			



Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Responsible officer	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>was arrived at. Consequently, the accuracy of valuation of 'special crops-plantations' during the year under review cannot be confirmed.</p> <p>ii) <b>Purchase of livestock</b> Information available indicate that the Corporation received an amount of Kshs. 250,000,000 from the government during the year under review for purchase of livestock as a mitigation to the pastoralists against loss due to drought. Schedules provided for audit shows that the Corporation acquired 4008 animals at a total cost of Kshs. 105,608,000. After effecting the loss of 60 animals and deaths of 770 animals, the management reported a net value of Kshs. 86,714,000 for animals. However, this amount is not reflected in the value of biological assets of Kshs 1,471,633,000 as at 30 June, 2017. Consequently, the value of biological assets of Kshs. 1,471,633,000 reflected in the financial statements is not completed or fairly stated.</p>	<p>possible to do it within the year under review. It is the management view that one year values would not materially affect the fairness of its financial statements.</p>			

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Responsible officer	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
5.	<p><b>Trade and other payables</b></p> <p>i) The consolidated statement of financial position as at 30 June 2017 reflects trade and other payables balance of Kshs. 1,267,914,000, which includes trade and non-trade creditor figure of Kshs. 744,162,000 and Kshs. 523,751,000, respectively. As reported in the previous years, the non-trade balance of Kshs. 523,751,000 includes audit fees totaling Kshs. 18,888,080 that have been outstanding since 1995. No satisfactory reason has been provided for failure to pay the fees.</p> <p>ii) The non-trade creditors balance also includes unremitted statutory deductions of Kshs. 21,842,832, Kshs. 26,932,145, Kshs. 57,934,238 and Kshs. 60,454,532 for Pay As You Earn (PAYE), National Social Security Fund (NSSF), Pension and Agdeco society deductions respectively, dating back to 1998.</p> <p>iii) The trade and other payables balance for the year then ended, like in previous years, includes an outstanding balance of Kshs. 267,279,416, payable</p>	<ul style="list-style-type: none"> <li>• <i>These outstanding debt and liabilities have accumulated over the years when the Corporation was financially constrained. The Corporation has commenced clearing the debts on installments as follows:-</i></li> <li>• <i>National Social Security Fund (NSSF) This relates to unremitted deductions, with special and statutory and penalties charged thereon. In 2014/15 the Corporation entered into a repayment arrangement with NSSF in which Kshs. 1.1m is paid on a monthly basis</i></li> <li>• <i>Pension Scheme This relates to un-remitted pension deductions to ADC Pension Scheme. A repayment arrangement has been agreed with Zimele Assets Managers – who are the Scheme Administrators in which Corporation is paying Kshs. 300,000 towards the arrears while remitting the current deductions.</i></li> <li>• <i>On Agedco Saving</i></li> </ul>	Financial Controller	Ongoing	30 <sup>th</sup> June 2020

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Responsible officer	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	M/S Supplies and Services Ltd in respect to fertilizer supplies. The amount includes Kshs. 112,219,009 being interest charged at the rate of 18% per annum on the number of days in default as at 30 June 2014. Any interest that may be accruing to the account has not been included in these financial statements from 1 July 2014 to date. The matter is still in court.	<p>and Credit Society</p> <ul style="list-style-type: none"> <li>The Corporation is paying Kshs. 1m to liquidate the outstanding amount in addition to paying the current deductions. For the other creditors, the Corporation continues to make payment on first in first come basis but where it is unable to settle the amount in full due to financial challenges we enter into a repayment program with the creditors in order to ensure continued supply of goods and services</li> </ul>			
6.	<p><b>Grants Reserves</b></p> <p>The consolidated statement of financial position reflects a balance of Kshs. 2,732,616,000 (2015/2016 -Kshs. 1,742,616,000) under Note 28 to the financial statements, the amount includes grants from various sources. During the year, the amount of grant from the Government of Kenya increased by Kshs. 990,000,000. The amount of increase includes Kshs. 50,000,000 in respect of drought mitigation grant recorded but not received as of 30 June 2017. Further, there is no</p>	<p>During the year the corporation had been allocated Kshs 300,000,000 out of which Kshs. 50,000,000 had not been received by the end of the year. Efforts are being made to have the same remitted by the Ministry.</p>	Chief Accountant	Resolved	30 <sup>th</sup> June 2018



Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Responsible officer	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>documentary evidence that this amount will be received in future and consequently it is not possible to confirm the validity of the grant receivable to the extent of Kshs. 50,000,000. In addition, the comparative figure for grant reserves of Kshs. 1,742,616,000 include an amount of Kshs. 31,414,000 that was not supported.</p> <p>Consequently, the accuracy and completeness of the grant reserve balance of Kshs. 2,732,616,000 reflected in the financial statements cannot be confirmed.</p>				
7	<p><b>Receivables from exchange Transactions</b></p> <p>i) As reported in the previous year, trade and non-trade receivables from exchange transactions balances of Kshs. 394,087,000 and Kshs. 194,150,000, respectively as at 30 June, 2017 and disclosed under Note 19 to the financial statements included an amount of Kshs. 9,859,415 that has remained outstanding for a long period of time dating back to 1980. In addition, the management has not provided the analyses of the specific provision of Kshs.52,499,000 for bad and doubtful debts for</p>				



Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Responsible officer	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>audit review. Further, the basis for determining the general provision of Kshs.4,909,000 has not been explained.</p> <p>ii) Included in the non-trade debtors figure of Kshs.194,150,000 is an amount of Kshs. 7,226,797 (2015/2016 -Kshs. 3,782,739) described as lost cash. The current financial year includes an amount of kshs. 2,065,000 that has been attributed to loss of imported potato seeds that were rotten on arrival and further loss of Kshs. 1,150,900 worth of potatoes that was destroyed in a fire. It is not clear why the Corporation had not insured the consignment to mitigate against such loss. Further, an amount of Kshs.4,507,635 described as provision for obsolete items/loss on investments' represents.</p> <p>iii) In addition, the non-trade debtors include deferred grants of Kshs. 70,000,000 receivable from the parent ministry. However, no documentary evidence was provided during the audit to indicate that the amount would be received in the foreseeable future.</p>				

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Responsible officer	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>ii) As reported in the previous year, verification of records in 2015/2016 revealed that the lease rental receivables totalling Kshs. 214,458,668 had not been included in the financial statements for 2016/2017 to record this omission.</p> <p>In view of the above, it has not been possible to confirm the completeness, accuracy and recoverability of receivables from exchange transactions and non-trade transaction figures of Kshs. 394,087,000 and Kshs. 194,150,000 respectively</p>				
8.	<p><b>National Livestock Project</b></p> <p>The consolidated statement of financial position and as disclosed under Note 20 to the financial statement reflects an amount of Kshs. 32,412,000 in respect of National Livestock project account that is claimable from the Ministry Corporation. The project started in 2006 when the Government granted ADC Kshs 198,000,000 to purchase livestock under the emergency off take programme in drought stricken arid areas. The Corporation incurred costs totalling Kshs 32,412,000 during the year on</p>				

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Responsible officer	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>maintenance and daily running of the project operation. The following unsatisfactory matters have also been note:</p> <p>i) The project has been reporting losses over the years while a similar Livestock enterprise under ADC is ever reporting profits.</p> <p>ii) The current account balance of Kshs. 32,412,000 is not supported by demand notes to the Ministry of Agriculture and as such it is not possible to confirm the debt.</p> <p>The Project did not prepare financial statements during the year, and as a result, it is not clear how operating overheads were apportioned between ADC and the National Livestock Project. In addition, the state of financial performance and financial statements</p>				
9.	<p><b>Rental Revenue from Facilities</b></p> <p>The consolidated statement of financial performance reflects an amount Kshs. 89,766,000 under rental revenue from facilities for the year ended 30 June, 2017, which is a drop of Kshs. 97,859,000, from last year's figure of Kshs.</p>	<p><i>The Observed is attributed to lease rentals in Galana ranch for which were suspended due to the ongoing Galana Kulalu</i></p>			



Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Responsible officer	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	187,625,000. The management attributes the shortfall to the stopped leases in Galana by the Government to create space for Galana/Kulalu Food Security Programme. Evidence available indicate that the lessees are still occupying the land and it is therefore not clear why the management has stopped accruing and receipting the income.	<i>Food project by the Government. Some of the lessees have gone to Court sighting this interference and we await the outcome of these cases. A disclosure note has been made in the financial statement to this effect.</i>			
10.	<b>Management Fees</b> The consolidated statement of financial performance reflects an amount of Kshs. 1,634,000 in respect of management fees. This amount is attributed to an agreement entered into between Agricultural Development Corporation (ADC) and National Disaster Management Authority (NDMA) on 'Commercial Destocking for Drought mitigation on 8 March 2017. According to clause 5 on Costs and Payments, the Corporation was to receive Kshs. 19,136,867 on signing of the agreement. This amount was to be used for purchase, translocation and managing 1,000 heads of cattle for three months and a further Kshs. 38,273,733 thereafter for the additional 2,000 heads of cattle. ADC was to be composed at				



Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Responsible officer	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	Kshs. 30/= per cow per day as management fees. Examination of the Corporation documents did not disclose details of amount received from this agreement and how it was applied. In view of the foregoing, the completeness and accuracy of the management fee figure of Kshs. 1,634,000 as at 30 June 2017 cannot be confirmed.				
11	<p><b>Loss of Fertilizer</b></p> <p>As Reported in the previous years, the Corporation lost a sum Kshs. 24,447,500 through fake bank deposit slips in respect of sale of fertilizer in Eldoret. The fertilizer, which was part of 40,000 bags of imported grade worth Kshs. 111,680,000 had for unclear reasons been stored in a private store in the town. According to information available, the mode of payment was to be either through direct bank deposits where bank slips would be issued and later used for collection of the fertilizer or by bankers' cheques which had to be confirmed before the sale. The Corporation however adopted the direct bank deposits method where and as a result of weak</p>	<p><i>These cases were heard and judgment delivered on 28<sup>th</sup> April 2011 where the court in its wisdom acquitted the accused persons under Sec. 215 of criminal procedure. The judge Mr. Shiundu in his ruling observed that the burden of prove lies with the prosecution, and that the prosecution did not prove their case against the accused persons beyond reasonable doubt. The investigating officer and a crucial witness in this case were not called in to testify and his evidence/testimony was to produce in court the falsified or forged documents. On the 1<sup>st</sup> accused Isaack Kiprop Chuma who absconded ADC has been following up the matter</i></p>	Corporation Secretary	Not Resolved	30 June 2020