REPORT OF THE AUDITOR-GENERAL ON AGRICULTURAL DEVELOPMENT CORPORATION FOR THE YEAR ENDED 30 JUNE, 2023

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.

B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines, and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.

C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how Management has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Agricultural Development Corporation set out on pages 1 to 53, which comprise of the consolidated statement of financial position as at 30 June, 2023, 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of the Agricultural Development Corporation as at 30 June, 2023, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and do not comply with the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1.0 Failure to Disclose Material Uncertainty in Relation to Sustainability of Services

The consolidated statement of financial position reflects current liabilities balance of Kshs.1,495,452,000 which exceeds the current assets balance of Kshs.798,453,000 resulting to a negative working capital of Kshs.796,957,548. Further, the Company's statement of financial performance reflects an operating loss of Kshs.29,612,000 resulting to an increase in accumulated deficit from Kshs.1,239,254,000 as at 30 June, 2022 to Kshs.1,251,552 as at 30 June, 2023. The Corporation is therefore, technically insolvent and its continued sustainability of services is dependent upon support from the National Government and its creditors. In addition, this material uncertainty has not been disclosed in the financial statements.

In the circumstances, the Corporation's ability to continue sustaining its services could not be confirmed.

2.0 Receivables from Exchange Transactions

The consolidated statement of financial position and Note 21 to the financial statements reflects receivables from exchange transactions balance of Kshs.432,044,000. However, the following issues were observed; -

2.1. Unsupported Receivables from Exchange Transactions

Management made a provision for doubtful debts totalling Kshs.132,477,000 whose basis was not provided. In addition, as previously reported, included in the balance is non-trade debtors of Kshs.130,801,000 out of which Kshs.12,865,307 related to outstanding safari advances. Management did not provide the details of the safari advances and no explanation was provided as to why they were not surrendered at the closure of the financial year as required by law.

2.2. Long Outstanding Trade Debtors

Review of the trade debtors' records revealed debtors amounting to Kshs.238,614,013 which relate to entities that have since been wound up or their records cannot be traced by the Management for verification as detailed in the table below;

Invoice Date	Debtor	Amount (Kshs.)
2016	Vital Plantation	14,521,099
2016	Bushlands	7,682,448
2021	Boit James	3,853,816
2012	Africa Business Centre	3,727,125

2009	Chemelil Sugar Company	40,481,469
1993	KGGCU (KFA)	6,782,864
2009	KPCU	5,842,554
2013	Kenya Seed Company	7,793,265
2010	Ministry of Agriculture	45,105,883
2016	National Irrigation Board	91,365,213
2010	KCC-O30-Kitale	9,271,027
2015	Wondernuts Kenya Limited	1,635,250
2017	CAI Station	552,000
	Total	**238,614,013**

In the circumstances, the accuracy and completeness of receivable from the exchange transactions balance of Kshs.432,044,000 could not be confirmed.

3.0 Unsupported and Long Outstanding Payables

As previously reported, the consolidated statement of financial position and Note 26 to the financial statements reflects trade and other payables from exchange transactions balance of Kshs.1,427,985,000. Included in the balance are the Corporation's non-trade creditors amounting to Kshs.756,031,000 out of which payables amounting to Kshs.154,030,000 relates to unpaid wages for casual laborers with Kshs.126,014,000 having been outstanding for more than one year and with some balances dating back to the year 2001.

In addition, the balance includes outstanding unremitted Pay As You Earn (PAYE) tax of Kshs.24,522,205 which had been outstanding for more than one year. However, the Kenya Revenue Authority-I tax portal reflected a balance of Kshs.34,183,799 resulting in an unreconciled variance of Kshs.9,661,594.

Further, trade creditors of Kshs.7,058,579 described as invoice to receive did not have details of the creditors.

Moreover, included in the trade and other payables from exchange transactions are payables amounting to Kshs.696,244,000 out of which payables amounting to Kshs.568,099,806 have remained unpaid for more than two hundred and seventy (270) days.

In the circumstances, the accuracy and completeness of trade and other payables from exchange transactions balance of Kshs.1,427,985,000 could not be ascertained.

4.0 Property, Plant and Equipment

The consolidated statement of financial position and Note 23(a) to the financial statements reflects property, plant and equipment balance of Kshs.1,225,948,000. Review of records held by the Corporation revealed the following matters;

4.1. Inaccuracies and Inconsistencies in the Financial Statements

4.1.1. Unsupported Adjustments

The property, plant and equipment balance includes adjustments in buildings, fencing and water supply, farm equipment, furniture and equipment and motor vehicles of Kshs.25,171,000, Kshs.250,000, Kshs.34,090,000, Kshs.4,479,000 and Kshs.50,246 respectively all totalling Kshs.114,236,000. However, these adjustments were not supported by journal vouchers.

4.1.2. Unsupported Assets Balances

The property, plant and equipment balance of Kshs.1,225,948,000 includes Kshs.1,022,691,000 in respect to leased farms, farms managed by ADC, building, fencing and water supply. However, valuation reports and asset inventory for buildings, fencing and water supply and leased farms were not provided for audit.

4.1.3. Revaluation of Assets

Review of assets movement schedule provided revealed that residual values over the remaining useful life of assets are not estimated hence significant number of assets are fully depreciated but still in use. In addition, the depreciation policy adopted under Note 4(d) in the summary of significant accounting policies in the financial statements does not disclose how depreciation will be calculated and recognized in the year that an asset is acquired or disposed.

Further, the Corporation has no assets and liabilities management policy contrary to Paragraph 4 -(4.5) of The National Treasury Policy on Assets and Liabilities Management in the Public Sector, June, 2020 which requires Public Sector Entities to align their policies to this policy and policy guidelines issued by The National Treasury.

4.1.4. Unsupported Prior Year Adjustment to Depreciation Expense

Review of prior year net book value disclosed in Note 23 (a) under property, plant and equipment differ with prior year audited account as tabulated below;

Assets	2022/2023 Financial Statement Amount (Kshs.)	2021/2022 Audited Financial Statements Amount (Kshs.)	Variance (Kshs.)
Leased Farms	220,000	216,000	4,000
Fencing and Water Supply	14,246,000	14,954,000	-708,000
Farm Equipment	166,528,000	166,711,000	-183,000
Motor Vehicles	144,549,000	138,592,000	5,957,000
Furniture and Equipment	22,492,000	22,491,000	1,000
Total	**348,035,000**	**342,964,000**	**5,071,000**

In the circumstances, the accuracy and completeness of the property, plant and equipment balance of Kshs.1,225,948,000 could not be confirmed.

4.2. Lack of Motor Vehicle Ownership Documents

Included in the property, plant and equipment balance is an amount of Kshs.63,220,000 in respect to motor vehicle. However, review of copies of logbooks certified by CMC Motors Group Ltd revealed that thirty-seven (37) motor vehicles with a net book value of Kshs.2,246,255 are jointly owned by CMC Motors Group Ltd and original logbooks were still held by CMC. In addition, included in the corporation's assets register is a vehicle GKB100R that is in use at Galana Ranch. Available information revealed that the vehicle had been handed to the Corporation by the Ministry of Agriculture. However, there was no document provided to confirm the ownership of the vehicle.

In the circumstances, the ownership of the motor vehicles valued at Kshs.63,220,000 could not be confirmed.

4.3. Leased Land

4.3.1. Expired Lease Agreements

Review of the lease agreements maintained by the Corporation revealed that some of the lease agreements had long expired and hence the tenants were in occupation irregularly. The expired leases are for, Kudu Camp Galana, Drake Management, National Irrigation Board, Sabaki Tropical Fruits Ltd and Bushlands.

4.3.2. Encroached Land

The Corporation entered into an agreement with a tenant for lease of land in Rumuruti measuring 15,000 acres for fifteen (15) years. The lease was effective from 1 October, 2015 at a lease rent of Kshs.500 per acre per annum. It was noted that the acreage changed from 15000 acres to 13,103 acres from 1 October, 2019. In a correspondence dated 27 February, 2017, the surveyors had indicated that 1897 acres had been lost due to illegal grazers invading the said piece of land. In addition, no further correspondence has been seen to explain what has since transpired with the 1897 acres that are no longer in the custody of tenant.

4.3.3. Unpaid Leases

An agreement was done to lease 5 acres for six (6) years in Tsavo East Wilderness Camp with effect from 1 January, 2021. The rent payable was Kshs.15,000 per acre quarterly. The tenant was to complete construction works in the leased land within a period of not more than six (6) months from the commencement of the lease during which rent was not payable. In the event the tenant was not able to complete the construction works within the stipulated period, they were to apply for extension of a further period at least two (2) months before the expiry of six (6) months. As at 23 April, 2023 there was no physical development on the property or physical presence. Further, the lessee was not paying the lease fees despite the grace period having lapsed.

In the circumstances, the completeness, accuracy and valuation of leases could not be confirmed.

4.4. Farms Managed by ADC

Included in the property, plant and equipment balance is value of farms managed by the ADC amounting to Kshs.521,513,000. Review of land records revealed the following matters;

4.4.1. Lack of Land Ownership Documents

The balance includes parcels of land as detailed below whose ownership documents were not provided for audit review;

No.	Farm	Acreage	Location	Reason

1	Enchili	685	Mau Narok	Title not processed - letter dated 11 July, 2023 from Ministry of Lands informed the Corporation that farms were bought by settlement fund trustees in October, 2010 which is a resettlement programme
2	Enchil	822	Mau Narok	Title not processed
3	Enchil	225	Mau Narok	Title not processed
4	Lanet	1504	Nakuru	Title deed was not provided
5	Suam	300	Kitale	Title deed was not provided
6	Ndabibi	2021.3	Nakuru	Pending registration
7	Ndabibi	425.01	Nakuru	Pending registration

4.4.2. Parcels of Land with Ownership Dispute

4.4.2.1. ELC Petition No.2 of 2022

There was an ongoing court case ELC Petition Number 2 of 2022 where the suit property of 175 acres belonged to Lands Limited. The petitioner alleged to be the lawful proprietor of all parcel of 200 acres land, Grant No.1.r 19981 having acquired from another owner other than ADC in the year 2021.

4.4.2.2. KTL ELC Petition No E001 of 2023

There was an ongoing Court case in the Environment and Land Court at Kitale ELC Petition Number 1 of 2023 for two parcels of land. The petitioner alleged that Land Limited executed an instrument of transfer in respect to one parcel measuring 300 acres located at Suam Orchard Farm at Kshs.1,238,350,000 and 5355/23 grant numbers and the second parcel of land comprised of two titles situated in Trans-Nzoia County. On 1 December, 1997, in favour of the petitioner, Chief Land Registrar duly registered the instrument of title in favour of the petitioner vide presentation book number 1140 of 18 April, 2000.

In the circumstances, the ownership of the above parcels of land could not be confirmed.

4.5. Farms Managed by the Corporation

Included in the balance is value of farms managed by the Corporation amounting to Kshs.37,910,000 with the following issues; -

i. Included in the balance are seven (7) parcels of land whose ownership documents were not in the custody of the Corporation. Records provided for audit revealed that two of the parcels were charged against a bank loan with a commercial bank and the loan was in arrears. Further, review of loan records for the commercial bank loan reveal that the loan has been charged against four (4) parcels of land and shows that the loan was in arrears of Kshs.156,389,000.

ii. In addition, although Management had indicated that the entity had leased some parcels of land to various organizations, an inventory of all the leased parcels and

Board Policy to guide on the lease charges were not provided while the lease agreements and receipts were not supported by lease valuation reports.

iii. A parcel of land in Molo sub-county has been encroached on by informal settlers although the Corporation has secured ownership documents.

iv. As previously reported, the financial statements exclude the value of land measuring about 2,908.42 acres known as Home Farm. The land was allocated to private developers in the year 1994 under unclear circumstances. Although, Management has explained that the matter is still under investigations, the status of the investigations was not provided for audit review.

v. The property, plant and equipment balance excluded land of undetermined value measuring 319.4 hectares located in Garissa Municipality which Management has explained that was donated. No explanation has been provided for failure to value the land and include it in their books.

vi. The financial statements reflect capital work in progress of Kshs.50,909,000. The balance includes Kshs.8,549,000 incurred on construction of seed drier and store project in Kitale that was started in the year 2006 and Kshs.23,681,000 incurred on construction of a dam and store at Suam Orchards Farm also in Kitale. Review of project progress report revealed that the projects had stalled.

In the circumstances, the accuracy, completeness, valuation and ownership of Corporation land balance of Kshs.37,910,000 could not be confirmed.

5.0 Investments

The consolidated statement of financial position reflects an investment balance of Kshs.467,283,000 as disclosed in Note 24 to the financial statements.
However, the following inadequacies were observed;

5.1. Non-Consolidation of Subsidiaries Financial Statements

Included in the investments balance of Kshs.467,283,000 are investments in shares held in Chemelil Sugar Company Ltd of Kshs.203,592,000, Muhoroni Sugar Company of Kshs.41,342,000, and Kenya Seed Company Ltd of Kshs.114,014,400 where Agricultural Development Corporation holds 96.22%, 74.17% and 51,83% respectively which is more than half in nominal value of share capital. However, the subsidiaries financial performance and financial position are not consolidated in the Agricultural Development Corporation consolidated financial statement as the holding company. Further, there is no documentary evidence or disclosure notes in the financial statement for the exemption.

5.2. Unpaid Dividends from Investments

The Corporation holds investments at Chemelil Sugar Company Ltd of Kshs.203,592,000, Muhoroni Sugar Company of Kshs.41,342,000, Kenya Grain Grower's Co-op Union of Kshs.1,123,424, Pyrethrum Board of Kenya of Kshs,35,640,000, Kenya Planters' Co-operative Union of Kshs.24,960,000, and Agro-Chemical and Food Ltd Kshs.16,900,000 respectively all totalling Kshs.323,557,424. However, no dividends have been received for a considerably long time.

5.3. Unsupported Investment at Kenya Grain Growers Co-operative Union

Included in the investment is an investment at Kenya Grain Growers Co-operative Union of Kshs.1,123,424 of 70,214 Ordinary shares of Kshs.20 supported by various share certificates. However, review of the share certificates revealed that 700 shares were not supported by certificates.

5.4. Investment at Kenya Seed Company

Note 24 to the financial statements reflects investment of Kshs.467,283,000 which comprises of investment of Kshs.114,014,400 in respect to 5,700,720 shares of Kshs.20 each in Kenya Seed Company bought in the year 1986 which is a holding of 52.88%. However, there is ongoing case Nairobi HCC NO.575 of 2004-ADC-VS-Kenya Seed Company & 9 Others since Kenya Seed Company issued for sale 4,000,000 Ordinary Share to existing shareholder. However, the Corporation did not subscribe and floatation resulted to dilution of shareholding from 52.88% to 40.28%.

Under the circumstances, the accuracy and completeness of investments balance of Kshs.467,283,000 could not be confirmed.

6.0 Unsupported Receivables from National Livestock Project

As previously reported, the statement of financial position and Note 21 to the financial statements reflects receivables from exchange transaction balance of Kshs.432,044,000. Included in the balance is an amount of Kshs.37,914,000 in respect of the National Livestock Project account that is claimable by the Corporation from the parent Ministry. According to records, the project was started in the year 2006 when the Government granted the Corporation an amount of Kshs.198,000,000 to purchase livestock under the emergency off-take program in drought stricken arid areas. The amount was to be spent on maintenance and daily running of the project operations. However, the balance of Kshs.37,914,000 was not supported with documentary evidence to confirm that the amount is reimbursable by the State Department of Livestock.

In the circumstances, the accuracy and completeness of the receivables on National Livestock Project balance of Kshs.37,913,748 could not be confirmed.

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

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual amounts on comparable basis of Kshs.2,418,928,000 and Kshs.1,662,494,000 respectively, resulting to an unrealized revenues of Kshs.756,434,000 or 31% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.2,226,799,000 and Kshs.1,709,261,000 respectively, resulting to under absorption of Kshs.517,538,000 or 23% of the budget.

In the circumstances, the under collection of revenue and under absorption affected the planned activities and may have impacted negatively on goods and service delivery to the public.

My opinion is not modified in respect of this matter.

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, because of the significance of the matters discussed in the Basis for Adverse Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Unserviced Borrowings

Review of the loan records provided for audit verification including the inventory of the tittle deeds for the land that the entity owns revealed that two of the entity's tittle deeds for parcels in Trans Nzoia County have been charged by a Commercial Bank for a loan owed to the bank which was valued at Kshs.156,389,000 as at 30 June, 2023 of which a monthly installment of Kshs.4,600,000 was to be paid. Review of the bank statement further revealed that within the financial year, only installments amounting to Kshs.8,846,391 were paid leading to accrual of interest and default charges amounting to Kshs.17,659,485.

In the circumstances, Management was in breach of loan agreement and the entity's land is at risk of being auctioned.

2.0 Failure to Remit Statutory Deductions

The statement of financial position and Note 26 to the financial statements reflects trade and other payables from exchange transactions balance of Kshs.1,427,985,000. Included in the balance are deductions amounting to Kshs.255,889,129 not remitted to the respective entities with some which have been outstanding for over twenty-three (23) years as tabulated below:

Details	Ref No.	Amount (Kshs.)	No. of Years Outstanding
P.A.Y.E	9202	23,688,039.91	11
N.S.S.F	9204	23,659,509.15	24

Details	Ref No.	Amount (Kshs.)	No. of Years Outstanding
N.H.I.F	9205	1,587,994	6
Pension Scheme Deductions	9211	1,714,440.59	8
AGDECO Society Deductions	9212	175,239,144.12	11
Total		**255,889,129**	

This was contrary to Section 19(4) of the Employment Act, 2007 which states that an employer who deducts an amount from employees' remuneration in accordance with Subsection 19(1) shall pay the amount so deducted in accordance with time period and other requirements specified in law, agreement, court order or arbitration as the case may be.

In the circumstances, Management was in breach of the law.

3.0 Non-Compliance with Law on Ethnic Diversity

Review of the staff records revealed that the Corporation has two hundred and seventy-eight (278) members of staff on permanent and pensionable terms out of which one hundred and two (102) staff members or 37% of the total workforce were from one ethnic community. This was contrary to Section 7(2) of the National Cohesion and Integration Act, 2008 which states that no public establishment shall have more than one third of its staff from the same ethnic community.

In the circumstances, Management was in breach of the law.

4.0 Staff Exceeding Mandatory Retirement Age

Review of the records maintained by the Human Resource Department including the payroll and the staff bio-data revealed that a total of nine (9) members of staff in various job groups were above the mandatory retirement age of sixty (60) years as at 30 June, 2023. Management did not provide any evidence that the said officers possessed rare knowledge, skills and competencies, are willing to work under contract and their performance shall not in any way be impaired by age as stipulated in Section 80(2) of the Public Service Commission Act, 2017.

In the circumstances, Management was in breach of the law.

5.0 Staff on Acting Capacity

Review of the records maintained by the Human Resource Department including the payroll and the staff bio-data revealed that a total of two (2) members of staff have been in acting capacity for more than the recommended six months. This is contrary to Section C.14 (1) of Human Resource Policies and Procedures Manual for Public Service May, 2016.

In the circumstances, Management was in breach of policy guidelines.

6.0 Lack of Contractual Agreements on Sale of Seed Maize

Review of Board minutes revealed that a meeting held on 28 June, 2022 had ratified Agriculture, Livestock and Project Committee report on review of Kenya Seed Company

(KSC) contract on seed maize pricing to Kshs.114 from Kshs.74. The Managing Director wrote to Kenya Seed Company Managing Director vide letter dated 12 September, 2022 Ref; ADC-HQ/TEC/OC/14/C/VOL.19 (126) confirming that ADC had agreed to the new producer price of Kshs.95.57 per kilo of clean seed and requested KSC to finalize signing of the contract.

However, the Corporation sold 7,891,048.83 Kgs of clean maize at a price of Kshs.88 amounting to Kshs.694,412,297 to Kenya Seed Company Ltd with no basis and without entering into a contractual agreement resulting in loss revenue for the Corporation of Kshs.59,735,160 using the agreed price of Kshs.95.57 per kilo. This was in contravention of Section 135(1) of the Public Procurement and Asset Disposal Act, 2015 which requires the Accounting Officer to sign a contract incorporating all the agreements.

In the circumstances, Management was in breach of the law.

7.0 Failure to Close Non-Designated Payment Platforms

As at the time of audit, the corporation was still operating on and receiving payments via different pay bills after the 8th August, 2023 deadline. This is contrary to the Government digitization plan that all ministries, government departments and agencies were directed to terminate all non-designated payment platforms and migrate to the designated paybill number by 8th August, 2023.

In the circumstances, Management was in breach of policy guidelines.

8.0 Under-Utilization of Feed Mill and Engineering Complexes in Kitale

During the physical audits to the Feed Processing Complex and Engineering Complex carried out in the month of August, 2023, it was noted that the Corporation was operating below its optimum as highlighted below;

8.1. Feed Mill Processing Complex

i. The feed mill equipment was very old and could not meet the huge demand for the livestock feeds.

ii. The old equipment at the feed mill operates at very low efficiency, consumes a lot of power and therefore high operation costs for the complex.

iii. The feed mill complex had an annual production target of 3500 tonnes of feed unit but only managed to produce 2170 tons. This is 62.8% of the annual target hence a shortfall of 37.2%.

8.2. Engineering Complex

i. The engineering service complex/machinery pool was poorly equipped to meet the demand of repair services both externally and internally despite there being a huge market for its specialized services.

ii. The complex had an annual revenue target of Kshs.53,598,673 but realized Kshs.20,083,686 thus achieving 37% of its target from its four revenue streams - code 1434, 1701, 1702 and 1703 resulting in a shortfall of 62.8%.

In the circumstances, Management has not effectively utilized the resources available.

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 comply, 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, because of the significance of the matters discussed in the Basis for Adverse Opinion and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

Basis for Conclusion

1.0 Use of Outdated Software and Stand-Alone Systems

Review of the Information and Communication Technology (ICT) environment of the Corporation revealed that it uses a software called SERA blue version which covers stores management, accounting modules, revenue, purchases, production, unit and cost centers. However, the following anomalies were noted:

i. Although the contract for acquisition of the system was not availed for audit verification, available information revealed that the system was acquired more than twenty-five (25) years ago and thus its efficiency level is too low due to changes in technology over time.

ii. There was no service level agreement with the vendor and thus maintenance of the system is highly hindered.

iii. The system is not web based and thus the head office and regional offices are not integrated.

iv. The acquisition and maintenance cost of the system could not be determined as no documentation was availed as at the time of audit.

In addition, the Corporation's human resource department uses a standalone memory soft payroll system. However, the system is hosted within the HR department and not shared with any of the farm and regional managers and hence the payroll officer must print copies for HRM and other managers for checking. The system is not compatible with the Sera Blue Version. Further, it was not possible to confirm the cost and time of acquiring the system as the records of its purchase could not be traced.

In the circumstances, the Corporation may suffer compromised efficiency due to use of ineffective ICT systems.

2.0 Failure by the Corporation to Undertake Governance Audit

Review of the internal controls environment revealed that Corporation did not undertake a governance audit as required by Section 1.13 of the Mwongozo Code of Conduct for State Corporations.

In the circumstances, the effectiveness of the governance structure could not be confirmed.

3.0 Unsurrendered Tablets from Former Board Members

Review of the records provided for audit including the board minutes and assets register revealed that a total of seventeen (17) former directors of the Corporation did not return tablets issued to them for official use. Although the resolutions of the board for recovery are still in force, Management did not avail any evidence of initiating the recovery process as stipulated.

In the circumstances, the effectiveness of the Corporation's controls on assets could not be confirmed.

4.0 Composition of the Corporation Board

Review of the files of individual board members revealed that the chairperson does not have a degree related to the operations of the corporation as required in the first attachment of Mwongozo, some members did not have a degree but a diploma and two board members did not attach their CVs for audit verification.

In the circumstances, the effectiveness of the governance structure could not be confirmed.

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

Responsibilities of Management and 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 internals controls 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 controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Corporation's ability to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to liquidate the Corporation or to cease operations.

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

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

The Board of Directors is responsible for overseeing the Corporation's financial reporting process, reviewing the effectiveness of how Management 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 controls 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 controls would not necessarily disclose all matters in the internal controls 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 controls may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Corporation to cease to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Corporation to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

I communicate with 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 communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and where applicable, related safeguards.

FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

05 April, 2024