

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

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-possessed 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:

Classification	Balance as per Financial Statements (Kshs.)	Balance as per Trial Balance (Kshs.)	Variance (Kshs.)
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:

	Investor	Farm Unit	Lease Period	Acreage	Annual Rental Charges per Acre Kshs.	Total Kshs.
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 Arafco 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
			Total	365,000		140,350,000

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.

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
	Total	467,283,000	

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