REPORT OF THE AUDITOR-GENERAL ON AGRICULTURAL FINANCE CORPORATION FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Agricultural Finance Corporation set out on pages 1 to 49, which comprise the statement of financial position as at 30 June, 2020, and the statement of comprehensive income, statement of changes in equity, 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 Agricultural Finance Corporation as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and does not comply with the Agricultural Finance Act, Cap 323 of the Laws of Kenya and the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1.0 Property and Equipment

1.1 Land Without Ownership Documents

The statement of financial position reflects a balance of Kshs.1,099,588,000 under property and equipment which, as previously reported, includes twenty-nine (29) developed plots measuring a total of 5.3324 hectares valued at Kshs.191,627,798 and seven undeveloped plots measuring a total of 1.5383 hectares with no ownership documents. Further, the value of land and buildings with a net book value of Kshs.886,254,000 excludes unvalued parcels of land located in Busia, Nanyuki and Kerugoya whose ownership is in dispute. Although Management explained that it continued with the pursuit of the ownership documents through the Ministry of Lands and the National Land Commission, the documents had not been obtained as at the time of audit.

In addition, the Corporation's parcel of land known as Kisumu Municipality/Block 6/391 measuring 0.4299 hectares which was allocated on a 99 years lease term by the Government with effect from 1 January, 1993 as per the certificate of lease dated

3 January,1999, has been repossessed by the Kenya Railways Corporation (KRC) through the Commissioner of Lands who claim that the land was illegally allocated to the Agricultural Finance Corporation (AFC). An attempt to sell the plot of land failed as title document is said to have passed to KRC under unclear circumstances.

1.2 Undervaluation of Land

The statement of financial position reflects a balance of Kshs.1,099,588,000 under property and equipment which, as disclosed in Note 8(a) to the financial statements, includes an amount of Kshs.886,254,000 being the net book value of land and buildings. The latter balance includes an amount of Kshs.526,550 that was used in acquisition of six parcels of land in Kimilili, Molo, Bomet, Bungoma, Chogoria and Kisumu Municipality. The six parcels of land have not been revalued contrary to the International Accounting Standard No. 16 which requires sufficient regularity in revaluation of property, plant and equipment to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the end of reporting period.

1.3 Property with Expired Lease

Included in the land and buildings net book value balance of Kshs.886,254,000 is a parcel of land Nakuru Municipality block 8/22 situated at the junction of Argwings Kodhek Road and Sungura Avenue in the larger industrial area within Nakuru municipality. Review of lease documents provided indicated that the residential plot lease expired in 2015 and has not been renewed. An attempt to sell of the property through an auction during the year was not successful.

Under the circumstances, it was not possible to confirm whether the property and equipment balance of Kshs.1,099,588,000 as at 30 June, 2020 was fairly stated.

2.0 Tax Matters

2.1 Unexplained Reversal of Current Tax Payable

The statement of financial position reflects a balance of Kshs.100,312,000 under current tax payable which, as disclosed in Note 21(c) to the financial statements, is net of a reversal of tax liability of Kshs.312,924,000 during the year. The reversal was effected on the advice by a tax consultant but the basis for the tax reversal was not disclosed. It is also not clear whether the Corporation had consulted with the Kenya Revenue Authority before reversing a liability that it had already recognized.
Further, the current tax payable of Kshs.100,312,000 includes an amount of Kshs.28,484,000 in respect of corporate tax attributed to rental income tax. However, no analysis was provided to support the rental tax payable balance.

Consequently, the accuracy and completeness of the current tax payable balance of Kshs.100,312,000 as at 30 June, 2020 could not be confirmed.

2.2 Unexplained Reversal of Deferred Tax Asset

The statement of financial position reflects a balance of Kshs.3,563,000 under deferred tax asset which, as disclosed in Note 10 to the financial statements, is net of a deferred tax reversal of Kshs.551,994,000 which was debited to general reserve during the year. However, as previously reported, supporting documents for the deferred tax reversal were not provided for audit verification.

Consequently, the accuracy and completeness of the deferred tax asset of Kshs.3,563,000 as at 30 June, 2020 could not be confirmed.

3.0 Repossessed Farm Properties

As disclosed in Note 11 to the financial statements, the statement of financial position reflects a balance of Kshs.267,794,000 under repossessed farm properties as at 30 June, 2020. Included in the balance are ten parcels of land spread in the four Counties of Homa Bay, Migori, Nyamira and Nandi. However, the ownership of the properties, or the loan balances against which they were repossessed could not be established.

Further, the repossessed farm properties balance of Kshs.267,794,000 includes a property with an outstanding amount of Kshs.6,092,187 for which the title deed is still in the name of the clients contrary to Section 9.8 of the Loan Policy which provides that upon acquisition of property by the Corporation, the Legal Department will arrange for the transfer of the property to the Corporation

Under the circumstances, the accuracy, ownership and completeness of the repossessed farm properties balance of Kshs.267,794,000 could not be confirmed.

4.0 Loans Management

4.1 Loans Write off Without Board Approval

The statement of financial position reflects an amount of Kshs.7,748,755,000 in respect of net loans after provision for bad and doubtful loans. Information available indicates that in the financial year 2017/2018, the Board and The National Treasury granted approval for write off totalling Kshs.2,164,311,134 The amount related to principal and accumulated interests for specific loans and affected 5,668 identified cases that had been taken between 2013 and 2016 calendar years. The loans were spread in six counties and also included unsecured group loans in all counties and bad and doubtful loans in all counties.

The first tranche towards the write off of the amounts was received from The National Treasury in the financial year 2017/2018 and amounted to Kshs.918,228,335. During the year under review, the Corporation received an amount of Kshs.1,200,000,000 from The National Treasury towards the settlement of the remaining balance. The amount was received in two instalments of Kshs.600,000,000 each on 18 October, 2019 and 27 December, 2019 respectively.

The amount of Kshs.1,200,000,000 was recorded in the books of the Corporation under grants – GOK Project Subsidy Funds 2016, but was used to settle loan balances that had not been initially approved by the Board. Although all the 5668 cases that had been identified by the Board and had their interest charges suspended from the date they were identified, the Corporation continued to charge them interest in a different memorandum but the interest was not accrued in the books of the Corporation.

The suspended interest as at 30 June, 2020 was eventually written off using the Kshs.1,200,000,000 provided for the loan write-offs. The balances that ought to have been written off remained in the books of the Corporation. It is not clear how the balances that had already been approved for write off will be settled.

In addition, the loan waivers of Kshs.1,200,000,000 was used to settle balances that had not been approved by the Board as follows:

(i) Unsecured group loans all counties - the Board had approved 126 loans totalling Kshs.113,393,163 for written off. However, the Management had written off 120 loans with an amount of Kshs.141,053,626 but six loans were not written off despite having an overpayment of Kshs.27,660,463.

(ii) County loans - 4271 loans amounting to Kshs.934,664,123 were approved by the Board for write off while the cumulative amounts paid was Kshs.1,576,669,981 resulting in unexplained 395 additional loans written off with an overpayment of Kshs.642,005,858.

(iii) In addition, of the amounts written off, Kshs.746,234,994, was related to suspended interests that had not been provided for when the loan write offs were proposed. This resulted in an accumulated write off of Kshs.932,290,756 on suspended interests that had not been provided for when the write offs were proposed.

Consequently, the accuracy, completeness and validity of the loan balances of Kshs.7,748,755,000 as at 30 June, 2020 could not be confirmed.

4.2 Net Medium-Term Loans to Customers

The net medium-term loans to customers of Kshs.7,748,754,000 as at 30 June, 2020 includes an amount of Kshs.22,661,000 advanced to thirteen farmers in Kapsabet. Information available indicates that the Corporation advanced the amount against various collaterals in form of title deeds which appeared fraudulent.

The Corporation filed six cases in Court against the fraudsters and judgement was entered in favor of the Corporation. However, execution of the warrants issued had not been made casting doubt on the recoverability of the amount of Kshs.22,661,000 advanced to the farmers.

Further, as disclosed under Note 9(a) to the financial statements, the Directors loans of Kshs.44,929,000 includes loan arrears of Kshs.4,138,000 and Kshs.2,058,000 due from two former Directors of the Corporation. Although the Management engaged an advocate to charge securities that guaranteed these loans due from former Directors, the securities had not been executed as at 30 June, 2020.

4.3 Non-Performing Loans

The net medium-term loans to customers balance of Kshs.7,748,755,000 also includes non-performing loans amounting to Kshs.2,592,482,619 which are attributed to 4,743 farmers. No efforts have been made to recover the loan amounts.

Consequently, the recoverability of the net medium term loans to customers of Kshs.7,748,755,000 as at 30 June, 2020 cannot be confirmed.

4.4 Loans Closed Off by Super User and Undefined Users

Examination of system logs and loan close up indicated that a total of 2,255 loans amounting to Kshs.1,159,938,173 were closed by the super users (IT Department). No explanation was provided on why the super users closed the loan accounts contrary to Section 4.7.1 of the Operations Procedures which states that the branch accountant is the only one authorized to close a loan upon confirming that the loan servicing account has sufficient credit by applying the necessary codes in the system.

Further, a total of 4,603 loans amounting to Kshs.2,962,815,541 were closed by undefined users in the system. In addition, loans worth Kshs.197,375,467 were closed by the systems vendor.

Consequently, the accuracy, validity, and completeness of the net medium-term loans to customers of Kshs.7,748,755,000 as at 30 June, 2020 could not be confirmed.

4.6 Long Outstanding Ex Staff Loans

The net medium-term loans to customers of Kshs.7,748,754,000 includes an amount of Kshs.544,639,000 under staff loans which further includes an amount of Kshs.25,594,418 due from ex-staff that have been outstanding for a long period. Management has not disclosed measures taken recover the long outstanding loans.

Consequently, the recoverability of the outstanding loans of Kshs.25,594,418 to ex staff as at 30 June, 2020 is doubtful.

4.7 Unsecured Loans

4.7.1 Loan RIM No. 44860

The Corporation advanced a client a loan of Kshs.4,000,000 for purchase of 85 bulls and fencing and farming installations on 10 November, 2013 which was to be repaid monthly with a banker's order of Kshs.188,408 with effect from 30 March, 2014. The client however, failed to adhere to the conditions of the contract and the Corporation through a public auction on 2 August, 2018 sold off the security LR. No. KAJIADO/LORNGUSUA/2526 at Kshs.2,000,000.

As at the end of the financial year, the total payment amounted to Kshs.2,563,000 which included proceeds from auction of Kshs.2,000,000 and part payment of Kshs.563,000 which had been made by client. The total outstanding debt stood at Kshs.7,200,563 which is unsecured since the security had already been sold and transferred to the new owner. Recovery of the amount of Kshs.7,200,563 owed to the Corporation is doubtful.

4.7.2 Loan RIM No. 56567

A client had an outstanding balance of Kshs.64,721,778 from a loan of Kshs.100,000,000 disbursed on 25 January, 2018. The loan was issued without security and registration of debenture is still pending two years after the loan was issued.

Under the circumstances, the Corporation risks loss of the outstanding loan balance of Kshs.35,278,222 in case of default.

4.7.3 Unsecured Loan - Loan RIM No. 58574

The Corporation approved and disbursed a loan amounting to Kshs.20,000,000 on 21 August, 2018 to a company for establishment of 380 acres of sugarcane whose security was a parcel of land in Naivasha L.R No. 4358/10(IR No. 197797). The outstanding balance as at 30 June, 2020 stood at Kshs.22,992,080 with total arrears of Kshs.2,992,080. The following observations were made on review of the valuer's report on the security:

(i) The securing property is registered in the name of an individual. However, it was established that the title was fraudulently registered and that the true owner is the Kenya Agricultural and Livestock Research Organization (KALRO) as per court ruling dated 15 July, 2019 and a new title deed L.R. No. 27158 (in the name of KALRO) which is an amalgamation of L.R No. 4358 was issued on 1 March, 2004.

(ii) There is a charge dated 4 December, 2018 registered against the title in favour of the Corporation to secure unspecified amount.

(iii) The property is vacant, undeveloped and fallow with bushes and shrubs.

(iv) The property measures 28.86 hectares or 71.32 acres and not 380 acres as detailed by the borrower during application.

As per Demand Notice dated 9 December, 2019, the Corporation visited the said project farm and confirmed that the financed project does not exist.

Under the circumstances, the recoverability of the loan balance of Kshs.22,992,080 as at 30 June, 2020 remains doubtful.

4.7. 4 Unsecured Loan - Loan RIM No.62694

The Corporation approved and disbursed a loan amount of Kshs.10,000,000 on 11 February, 2019 to client ID 030062694 and Account ID 1200300626941. However, the loan security was a property co-owned and therefore it was not possible to establish the status of the security.

Under the circumstances, the security of the loan of Kshs.10,000,000 could not be confirmed.

5.0 Unreconciled Transaction Between AFC and Commodity Fund

The statement of financial position reflects a balance of Kshs.179,442,000 under trade and other payables which includes an amount of Kshs.9,515,756 due to the Commodities Fund. However, records maintained by Commodities Fund reflects a balance of Kshs.1,068,976,155 resulting in an unreconciled difference of Kshs.1,059,460,399.

Consequently, the accuracy and completeness of trade and other payables balance of Kshs.179,442,000 as at 30 June, 2020 could not be confirmed.

6.0 Cash and Bank Balances

6.1 Inaccuracy of Cash and Bank Balances

The statement of financial position reflects cash and cash equivalents of Kshs.147,795,000 which, as disclosed in Note 13(a) to the financial statements, comprised of various account balances from the branches and the Head Office. Examination of reconciliation statements revealed material variances from the regions bank's reconciliation statements compared to Head Office. Further, the adjusted cash book balance was not applied resulting in a misstatement of cash and bank balances by Kshs.2,100,534.

Under the circumstances, the accuracy and completeness of cash and Cash equivalents balance of Kshs.147,795,000 as at 30 June, 2020 could not be confirmed.

6.2 Loss of Cash

As previously reported, examination of records between January, 2005 and November, 2010 revealed that the Corporation lost a sum of Kshs.35,840,714 through fraudulent transactions involving encashment of 196 cheques by various staff members. Although, the cases are still in Court, no provisions for the loss have not been incorporated in the financial statements.

Further, the Corporation fraudulently lost cash at AFC Eldoret Branch through unremitted transfers and collections amounting to Kshs.4,142,450 and Kshs.4,947,950, respectively. However, no action have been made toward the recovery of the stolen cash.

7.0 Board Expenses

The statement of comprehensive income reflects board expenses amounting to Kshs.21,770,000. Examination of board composition and appointments revealed the following unsatisfactory issues:

(i) Two Board Members representing the Ministries of Agriculture, Livestock and Fisheries- State Department for Crops and The National Treasury were not gazetted and their appointment letters were also not provided for audit review.

(ii) Five individuals described as Members were paid sitting allowances and other allowances while they were not indicated as Board of Directors in the other information accompanying the financial statements. In addition, documentary evidence on their gazettement and appointment letters were not provided for audit review.

Under the circumstances, the accuracy, validity and completeness of the Board expenses of Kshs.21,770,000 could not be confirmed.

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

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the 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 Renovation of Machakos Regional Offices

The statement of financial position reflects a balance of Kshs.1,099,588,000 under property and equipment which, as disclosed in Note 8(a) to the financial statements, includes an amount of Kshs.152,203,000 being the net book value of furniture and fittings. The latter balance includes furniture and fittings additions during the year of Kshs.47,966,000. Included in the additions is an amount of Kshs.10,324,589 in respect of a contract for renovation of Machakos Regional Offices for a contract period of 16 weeks. The contract was signed on 31 January, 2019 and work commenced on 13 February, 2019. However, certified items relating to provisional sums of Kshs.450,000 and preliminaries of Kshs.100,000 were not supported. In addition, the defects liability period expired on 21 March, 2020.

A visit to Machakos Region Offices on 10 November, 2020 revealed that the project was not done as per contract terms and specifications even though the items were certified by the quantity surveyor for payments despite poor workmanship and incomplete works.

Under the circumstances, the Corporation did not obtain value for money for the renovation works amounting to Kshs.10,324,589.

2.0 Microsoft Dynamics GP Up-grade System

During the year under review, the Corporation procured a Microsoft Dynamics GP Upgrade System at a contract sum of Kshs.6,372,344 and for a contract period of 14 weeks from 14 July, 2019 when the contract was signed. However, the Corporation had not fully automated its financial reporting processes despite having installed and upgraded its IT based financial support systems. The reconciliation of the fixed assets was not yet complete while physical tagging, verification, reconciliation and upload of the assets had not been done and the register could not be accessed from the system. The payment vouchers were also still being generated manually.

Further, it was not possible to confirm how an amount of Kshs.641,800 on project disbursements was utilized. In addition, the Corporation purchased 9000 aluminum bar codes equipment at a cost of Kshs.1,722,600 during the year. No explanation was provided for the double purchase as the contracted company was to do the same work.

Consequently, value for money was not obtained on the procurement and installation of Microsoft Dynamics GP Upgrade at a contract sum of Kshs.6,372,344.

3.0 Enhanced Fitness System Module Not Fully Implemented

The Corporation procured an Enhanced Fitness System Module, that was procured at a contract a sum of Kshs.13,804,000 to improve the efficiency and effectiveness of the existing system. The module was procured through direct procurement method and the contract signed on 11 July, 2019 for a six-month contract period.

The total payments as at 30 June, 2020 stood at Kshs.10,382,000 or 75% of the contract cost. A prototype financial and credit analysis module had been deployed as at 14 February, 2020. However, the ICT Division indicated that the test module could not be deployed on live environment because there were other dependable variables not yet developed. Further, the developer was requesting for 30% of the 2nd installment to facilitate final stages of the project implementation.

The system had not been integrated to the IPRS for ID validation and it did not mirror the core banking system resulting in the latter reflecting more loans than the fitness system. The performance security was not provided and although the contract period had expired, no documents were provided for audit review in support of contract extension.

Consequently, the Corporation did not realize value for money from the expenditure of Kshs.10,382,000 incurred on procurement of the Enhanced Fitness System Module.

4.0 Customer Feedback System Module Not Installed

The Corporation Procured Customer Feedback System Module through direct procurement method and the contract awarded to the same vendor who had supplied the Enhanced Fitness System Module. The contract was awarded to the developer on 14 July, 2020 for a contract sum of Kshs.12,585,600 and a duration of 3 months. A 50% down payment of Kshs.6,292,800 was made on 17 July, 2020 and a demand for 30% of the contract amount further requested on 17 September, 2020 translating to a possible 80% payment without installation of the module.

The performance security equivalent to and not more than ten per cent of the contract amount before signing of the contract was not provided. A down payment of 50% of the contract sum violates the provisions of Section 147(2) of the Public Procurement and Asset Disposal Act, 2015 which states that advance payments granted should not exceed twenty per cent of the price of the tender and should be paid upon submission by the successful tenderer to the procuring entity of an advance payment security equivalent to the advance itself and that security from a reputable bank or any authorized financial institution.

Further, it was not clarified why the module was to be a stand-alone instead of being part of the Enhanced Fitness System. The system has not been installed to date.

Consequently, value for money was not realized on the procurement of the Customer Feedback System Module at a contract sum of Kshs.12,585,600.

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, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

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
<u>AUDITOR-GENERAL</u>

Nairobi

10 February, 2022