

# **REPORT OF THE AUDITOR-GENERAL ON COFFEE CHERRY ADVANCE REVOLVING FUND FOR THE YEAR ENDED 30 JUNE, 2023**

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## **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 intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity 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**

### **Qualified Opinion**

I have audited the accompanying financial statements of Coffee Cherry Advance Revolving Fund set out on pages 1 to 66, which comprise of the statement of financial position as at 30 June, 2023, and the statement of financial performance, statement of changes in net assets, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Coffee Cherry Advance Revolving Fund 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 comply with the Public Finance Management Act, 2012 and the Public Finance Management (Coffee Cherry Advance Revolving Fund) Regulations, 2020.

## **Basis for Qualified Opinion**

### **1. Inaccuracies in the Financial Statements**

The financial statements presented for audit had the following inaccuracies:

- i. The statement of financial position reflects comparative cash and cash equivalents balance of Kshs.2,917,791,246 while the corresponding Note 29 to the financial statements reflects comparative balance of Kshs.2,898,209,112 resulting to an unexplained and unreconciled variance of Kshs.19,852,134.
- ii. Further, the statement reflects a comparative balance of Kshs.3,032,138,972 in respect to total net assets and liabilities. Recasting of balances yielded Kshs.3,025,381,696 resulting to an unexplained and unreconciled variance of Kshs.6,757,276.
- iii. In addition, the statement reflects a comparative current liabilities balance of Kshs.6,181,918 while the corresponding Note 43 to the financial statements reflects nil balance resulting to an unexplained and unreconciled variance of Kshs.6,181,918.
- iv. The statement of cash flows reflects net cash flows from operating activities of Kshs.135,151,796 while the corresponding Note 50 to the financial statements reflects an amount of Kshs.571,799,806 resulting to an unexplained and unreconciled variance of Kshs.436,648,010.
- v. The disclosure on capital risk management at Note 51(iv) to the financial statements reflects total Borrowings of Kshs.17,624,537 that has not been incorporated into the financial statements.

In the circumstances, the presentation, accuracy and completeness of the above balances as reflected in the financial statements could not be confirmed.

### **2. Presentation of the Financial Statements**

Review of the financial statements revealed that the Management did not comply with the International Public Sector Accounting Standards (Accrual Basis) as prescribed in the Public Sector Accounting Standards Board Reporting Template (Revised 2023).

In the circumstances, the presentation of the financial statements was not in accordance with the format prescribed by the Public Sector Accounting Standards Board.

### **3. Long Outstanding Trade Receivables**

The statement of financial position reflects receivables from exchange transactions and receivables from non-exchange transactions balances of Kshs.488,240,754 and Kshs.215,187,818 as disclosed in Note 30(d) and 31 to the financial statements respectively both totalling Kshs.703,428,572. However, included in Kshs.703,428,572 is Kshs.337,994,165 of receivables, which have been outstanding for more than one (1) year. Management did not provide explanation for the delays in recovery or actions being taken to recover the long overdue amounts. Further, no provisions for bad and doubtful debts have been made despite its doubtful nature.

In the circumstances, the accuracy and recoverability of the trade receivables balance of Kshs.703,428,572 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Coffee Cherry Advance Revolving Fund 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. Failure to Prepare Annual Workplan and Budget for the Fund**

As previously reported, the Fund did not prepare annual work programme and budget for the financial year ended 30 June, 2023. In the foregoing circumstances, it was impossible to establish the Fund's approved activities and cost estimates thereof for the financial year under review as envisaged. This was in contravention of Regulation 23(1) of the Public Finance Management (Coffee Cherry Advance Revolving Fund) Regulations, 2020

which states that, “at least six months before the commencement of each financial year, the Board shall cause to be prepared estimates of the revenue and expenditure of the Fund for that year”.

Further, Regulation 6(2) of the Public Finance Management (Coffee Cherry Advance Revolving Fund) Regulations, 2020 stipulates that the expenditure on the Fund shall be on the basis of and limited to annual work programmes and cost estimates which shall be prepared by the Administrator at the beginning of every financial year and approved by the Board.

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

## **2. Irregular Investment of Undisbursed Funds in Call Account at a Commercial Bank**

As previously reported the cash and cash equivalents balance of Kshs.2,286,286,291 includes an amount of Kshs.2,181,054,794 invested in call deposits, held in a Commercial Bank, as disclosed at Note 29 to the financial statements. This is contrary to The National Treasury Circular Ref. DMD 4/02 ‘H’ (63) of 26 March, 2018 which directed all State Corporations and Semi-Autonomous Government Agencies (SAGAs) to invest surplus funds in Treasury Bills and/or Treasury Bonds directly through Central Bank of Kenya without intermediaries. All funds previously held in fixed deposits in commercial banks / financial institutions were not to be rolled over but retired and invested in Treasury bills / bonds.

Further, the balances held with the commercial banks on call deposit have accumulated unapplied interest of Kshs.181,054,794. Unapplied funds do not benefit from interest, unless rolled over as part of the principal balances. This has denied the Fund the benefit of a higher return on those unpaid Funds.

In the circumstances, Management was in breach of the law and value for money was not realized from unapplied interest that was not rolled over.

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 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 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 overall governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Fund 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 Fund's financial reporting process, reviewing the effectiveness of how the Fund 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 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 controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue 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 Fund to cease to continue 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 Fund 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**

**24 January, 2024**