REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

*Enhancing Accountability*

# REPORT

# OF

# THE AUDITOR-GENERAL

# ON

# AGRICULTURAL DEVELOPMENT CORPORATION

# FOR THE YEAR ENDED 30 JUNE, 2025

# REPUBLIC OF KENYA

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## REPORT OF THE AUDITOR-GENERAL ON AGRICULTURAL DEVELOPMENT CORPORATION FOR THE YEAR ENDED 30 JUNE, 2025

PREAMBLE

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

A. Report on 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 the 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 the Government achieves value for money and that such funds are applied for the intended purpose; and,

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, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

A Qualified Opinion is issued when the Auditor-General concludes that, except for material misstatements noted, the financial statements are fairly presented in accordance with the applicable financial reporting framework. The Report on Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management and Governance.

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 Agricultural Development Corporation set out on pages 1 to 60, which comprise of the statement of financial position as at 30 June, 2025, and the statement of statement of financial performance, 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, 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 Agricultural Development Corporation as at 30 June, 2025 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 Act of Parliament Cap 444 of 1986 and the Public Finance Management Act, 2012.

**Basis for Qualified Opinion**

**1. Unsupported Statement of Cash Flows**

The statement of cash flows reflects payments totalling Kshs.1,503,447,000, while the consolidated statement of financial performance reflects total payment of Kshs1,624,684,000 resulting to a variance of Kshs.121,237,000 which was not explained or reconciled.

In the circumstances, the accuracy and completeness of statement of cash flows could not be confirmed.

**2. Property, Plant and Equipment**

The consolidated statement of financial position at Note 23(a) reflects property, plant and equipment balance of Kshs.1,199,144,000. However, the following observations were made;

**2.1 Parcels of Land with Ownership Dispute**

As previously reported, 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 the parcel of 200 acres land, Grant No. L.R 19981 having acquired it from another owner other than ADC in the year 2021.

Further, 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 Lands 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, Chief Land Registrar duly registered the instrument of title in favour of the petitioner vide presentation book number 1140 of 18 April, 2000.

**2.2 Encroached Land at Rumuruti**

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 reduced from 15,000 acres to 13,103 acres from 1 October, 2019 as a result of invasion by illegal grazers. In a correspondence dated 27 February, 2017, surveyors had indicated that 1,897 acres had been lost due to these illegal grazers. Management has not demonstrated concrete efforts to recover this land.

### 2.3 Land under Sirikwa Valley Farm (SKOV) in Nakuru

Further, 529.25 hectares of land under the SKOV in Nakuru, registered under L.R Certificate No. 9467 was a subject of dispute with persons who had encroached the ADC land, claiming ownership. The disputed parcel remains unvalued and its legal status unresolved as at the time of the audit.

### 2.4 Failure to Carry out Land Valuation

Review of the Corporation`s land register revealed that the corporation owns a total of 748,115.74 hectares of land across the Country. However, the Corporation has not carried out a valuation of these parcels of land to determine their current fair value for financial reporting purposes.

### 2.5 Failure to Transfer Log Book to ADC

The log book for motor vehicle registration NO.40UN511K Toyota Hilux Double Cabin donated by UNDP in 2007 had not been transferred to the Corporation and the log book was still bearing the name of UNDP. Effectively, ownership of this vehicle remains with UNDP.

In the circumstances, the accuracy and completeness of property, plant and equipment balance of Kshs.1,199,144,000 could not be confirmed.

### 3. Inaccuracies in Revenue

The consolidated statement of financial performance reflects total revenue balance of Kshs.2,104,415,000. Revenue analysis and verification of the receipts, cash sales and invoices used by ADC to collect and recognize revenue collection revealed the following anomalies;

### 3.1 Unreconciled Revenue

Note 3 to the financial statements reflect farming income of Kshs.1,903,927,000. included in this balance, is other farm produce of Kshs.181,195,000 out of which Kshs.20,539,911 related to sugarcane delivered to a local company in western Kenya. However, these amounts were disputed by the sugar company arising from the unclear contract terms which did not stipulate the rates of deductions and other charges.

At the time of audit only Kshs.16,238,202 had been reconciled leaving a total of Kshs.4,301,709 unreconciled.

### 3.2 Loss of Revenue in ADC Nakuru Region

Note 3 to the financial statements reflects farming income balance of Kshs.1,903,927,000. Included in this amount is sale of commercial maize of Kshs.96,983,0000. Excluded from this amount is an amount of Kshs.904,140 for 301 bags of commercial maize which were issued without following the required process and approval.

### 3.3 Unauthorized Revenue Expenditure

Review of revenue records at ADC Chorlim, ADC Sabwani, ADC Namandala, ADC Japata, ADC Nai, ADC Suam, ADC Olngatongo, ADC Livestock Genetics Centre revealed that these farms collected revenue and spent at source apart from seed maize revenue which was invoiced at the farms but revenue collected at the Head Office. Further, ADC Sabwani Complex collected a total of Kshs.369,397,183, however, Kshs.39,241,840 was spent at source.

In the circumstances, accuracy and completeness of revenue balance of Kshs.2,104,415,000 could not be confirmed.

### 4. Failure to Pay for Lease Agreement by National Irrigation Authority

Agricultural Development Corporation entered into a lease agreement with the National Irrigation Authority (NIA) on 7 April, 2014 for 20,000 acres of land at a rate of Kshs.3,000 per acre per year, effective from 1 April, 2013 to 1 April, 2018, under the Grand Food Security Programme (GFSP). The lease, valued at Kshs.300 million over five years, was aimed at supporting the Government's initiative to establish the Galana-Kulalu Model Farm—a key pilot project under the National food security pillar of Vision 2030. However, the following observations were made;

i. Under the arrangement, ADC was to provide the land, while NIA was responsible for developing the necessary irrigation systems and infrastructure. Once completed, the project was to be handed back to ADC for agricultural production. However, this has not happened by the time of audit exercise.
ii. NIA paid Kshs.150 million as lease fees to ADC but defaulted on an additional Kshs.150 million. As of November 2025, the irrigation and support infrastructure had been substantially completed and was operational. However, the outstanding lease payment remained unpaid.
iii. ADC and NIA jointly entered into a Public-Private Partnership (PPP) arrangement with a local company for the Development, Operation, and Management of the 20,000 acre NAFAKA Food Security Project—an expansion of the original Galana-Kulalu initiative. Audit review revealed that the PPP process had not yet received formal approval from the Public Private Partnerships Committee as required under Sections 19–22 of the PPP Act, 2021, nor had the final PPP agreement been executed.
iv. The local company commenced test-run production activities on portions of the farm in 2025, utilizing the existing irrigation infrastructure financed through Government loan

In the circumstances, the recoverability of the receivables from exchange transactions could not be confirmed.

### 5. Non-Consolidation of Subsidiaries Financial Statements

The consolidated statement of financial position reflects an investment balance of Kshs.467,283,000 as disclosed in Note 24 to the financial statements. The balance represents equity investments in several entities including eight investee companies.

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.

In addition, 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.

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

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Agricultural 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 qualified opinion.

## Emphasis of Matter

### 1. Budget Control and performance

The statement of comparison of budget and actual performance reflects approved revenue estimates of Kshs.2,535,284,000 against actual revenue collection of Kshs.2,104,412,000 resulting in under collection of Kshs.430,872,000 or 17% of the budget. Similarly, the statement the total operating expenditure amounted to Kshs.1,624,701,000 against an actual receipts of Kshs.2,104,412,000 representing an underspending of Kshs.479,711,000 or 22% of the actual receipts.

The under collection and under expenditure of revenue may have negatively impacted on the planned activities of the Corporation.

### 2. Contingent Liabilities

Review of Note 33 to the financial statements revealed that the Corporation disclosed a contingent liability of Kshs.1,925,014,000 which comprise of Kshs.1,412,811,000 from tax assessments issued by the Kenya Revenue Authority in relation to principal tax, penalties and interest and Kshs.512,203,000 relating to pending land rates from previous years. Management explained that following consultations and reviews with KRA, the Corporation had negotiated the tax arrears down to Kshs.336,617,770 which remains under discussion and review with the Authority. However, as at the time of audit no formal settlement, correspondence or other documentary confirmation of negotiated position was provided for audit verification.

Further, the Corporation disclosed outstanding liabilities for County Governments of Trans Nzoia, Kilifi, Tana River of Kshs.309,127,000, Kshs.196,118,000 and 6,958,000 respectively all amounting to Kshs.512,203,000 relating to accrued land rates and associated penalties. No supporting documentation such as demand notices were presented to confirm the amounts, nor was there formal payment arrangements in place.

In the circumstances, the Corporation faces the risk of high penalties should the negotiation with the tax authority and County Governments not succeed in ADC's favour.

### 3. Failure to Disclose Material Uncertainty Related to Going Concern

Review of the consolidated statement of financial position revealed that current liabilities balance of Kshs.1,696,290,000 exceeded the current assets balance of Kshs.1,188,748,000, resulting in a negative working capital of Kshs.507,542,000. This position implies that the Corporation was unable to meet its short-term financial obligations from its available current assets.

Further, the financial statements did not disclose this material uncertainty, contrary to the requirements of IPSAS 1, which mandates management to disclose such conditions and the mitigating plans in the notes to the financial statements.

In the circumstances, Management was in breach of IPSAS 1 requirement.

My opinion is not modified in respect of these matters.

## Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the effect of the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report

## Other Matter

### Unresolved Prior Year Audit Matters

In the audit report of the previous year, several issues were raised under Report on the Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management had not resolved the issues or given any explanation for failure to resolve them as at 30 June, 2025 as shown below:

| Issue No. | Financial Year | Issue Title |
|---|---|---|
| 1 | 2023/2024 | Inaccuracies in the loan balance |
| 2 | 2023/2024 | Property plant and equipment |
| 3 | 2023/2024 | Receivables from exchange transactions |

| Issue No. | Financial Year | Issue Title |
|---|---|---|
| 4 | 2023/2024 | Unsupported receivables from National Livestock project |
| 5 | 2023/2024 | Investments |
| 6 | 2023/2024 | Unsupported and Long outstanding payables |
| 7 | 2023/2024 | Undisclosed material uncertainty in relation to sustainability of service |
| 8 | 2023/2024 | Budget Control and performance |
| 9 | 2023/2024 | Regularities in Human resource management practices |
| 10 | 2023/2024 | Unaccounted for herbicides |
| 11 | 2023/2024 | Loss of assets -livestock |
| 12 | 2023/2024 | Stalled Projects |
| 13 | 2023/2024 | Lack of Contractual Agreements on Sale of Seed Maize |

### Other Information

The Directors are responsible for the Other Information set out on page iv to lv which comprise of the Key Entity Information and Management, The Board of Directors, Management Team, Chairman's Statement, Report of the Managing Director, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Directors, Statement of Directors Responsibilities, Statement of Performance Against Predetermined Objectives The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the Corporation's financial statements, my responsibility is to read the Other Information and in doing so, consider whether the Other Information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this Other Information and I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance conclusion thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

### Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in the 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. Irregular Procurement of Motor Vehicles

The consolidated statement of financial position, as disclosed under Note 23(a) reflects property, plant and equipment balance of Kshs.1,199,144,000, of which Kshs.128,918,000 relates to acquisition of motor vehicles. Included in the amount of is Kshs.47,066,900 paid for the supply of five (5) motor vehicles procured from a local dealer. However, review of the procurement process revealed the Corporation procured the vehicles through restricted tendering without amending the procurement plan. In addition, the supplier`s letter of acceptance confirming the award was not provided for audit review.

In the circumstances, Management was in breach of law and value for money could not be confirmed.

### 2. Irregular Procurement of Tractors

The consolidated statement of financial position, as disclosed under Note 23(a) reflects property, plant and equipment balance of Kshs.1,199,144,000 of which Kshs.128,918,000 relates to acquisition of tractors. Included in the amount is Kshs.50,780,000 paid for the supply of ten (10) tractors procured from local dealers. However, review of the procurement process revealed the following anomalies;

i. The approved procurement plan indicated open tendering, but the Corporation utilized restricted tendering without justifying reasons.
ii. Termination of initial tender was not reported to public procurement regulatory authority within the prescribe fourteen days as required by section 63(2)(3) of Public Procurement and Disposal Act 2015.
iii. Delivery was confirmed through a delivery note without a corresponding inspection and acceptance certificate.

In addition, the entity acquired two (2) tractors and a gyro mower procured from a local dealer. However, examination of the procurement documentation revealed the following irregularities;

i. The approved procurement plan indicated open tendering, but the corporation utilized restricted tendering without justifying reasons.
ii. The CR12 certificate provided was issued six months prior to the date of the requirement.
iii. The procurement file lacked evidence of performance security or bank guarantee.

In circumstances, Management was in breach of the law and value for money could not be confirmed.

### 3. Irregular Procurement of Farm Equipment and Machinery

The consolidated statement of financial position, as disclosed under Note 23(a) reflects property, plant and equipment balance of Kshs.1,199,144,000 of which Kshs.25,424,000 relates to acquisition of farm equipment and machinery that further included amount of Kshs.17,103,446 paid for the supply of eleven (11) farm equipment and machinery procured from a local dealer. However, examination of the procurement documentation revealed that the procurement plan provided for open tendering but the Corporation proceeded with restricted tendering, later converting to direct procurement without justifying reasons. Further, evaluation committee records indicated that the initial bidders had been disqualified, yet the same firms were subsequently awarded contracts under direct procurement. In addition, delivery confirmation was inadequately documented, relying on a single officer`s signature.

In the circumstances, Management was in breach of law and value for money could not be confirmed.

### 4. Irregular Payment of Medical Insurance

The statement of financial performance and Note 8 to the financial statements reflects a balance of Kshs.633,803,000 for employee costs which includes medical insurance services of Kshs.30,369,439. Review of procurement records relating to tender for the provision of medical insurance services revealed that AAR Insurance was awarded a contract amounting to Kshs.30,369,439 for the renewal of staff medical cover. However, the examination revealed the following procedural anomalies and non-compliance with procurement regulations;

i. The renewal of the medical cover lacked actuarial evaluation or justification to support the pricing, coverage, and risk assumptions.
ii. There was no premium certificate submitted to confirm the underwriter's liability and formal acceptance of risk under the renewed policy.
iii. Documentation confirming the inclusion of 14 newly recruited employees during the year under review was not provided for audit verification. Endorsement letters, acknowledgment notes or policy addenda reflecting their addition to the medical insurance cover were not provided.
iv. Signed insurance policy or agreement was not provided for audit review.

In the circumstances, Management was in breach of law and the value for money could not be confirmed.

### 5. Inadequacies in Procurement of General Insurance Cover Contract

The statement of financial performance and Note 7 to the financial statements reflects balance of Kshs.744,824,000 for use of goods and services. Included in this amount was Kshs.2,821,286 for general insurance for a total contract sum Kshs.2,821,286 However, the awarded contract lacked a duly signed service level agreement or insurance policies between the insurers and the Agricultural Development Corporation. These critical documents were also not provided for audit review. Further, the policy commencement date preceded confirmation of full premium payment, contrary to standard insurance practice which requires that cover be activated only upon receipt of premium, in accordance with regulatory expectations and industry norms. In addition, no formal insurance policy documents were availed for audit review.

In the circumstances, regularity and value for money for the expenditure for insurance of Kshs.2,821,286 could not be confirmed.

## 6. Irregular Procurement of Herbicides

The statement of financial performance reflects use of goods and services balance of Kshs.744,824,000 as disclosed in Note 7 to the financial statements. Included in the balance is Kshs.161,383,000 incurred to procure herbicides. However, examination of procurement records relating to the supply of herbicides revealed that contracts were awarded to a local agrovet and enterprise, each valued at Kshs.2,900,000, resulting in a total of Kshs.5,800,000. This amount exceeded the allowable threshold for the request for quotation procurement method without any justification or approval contrary to Section 54(1) of the Public Procurement and Asset Disposal Act, 2015.

In addition, the evaluation process lacked evidence of competitive pricing analysis, value-for-money assessments, or transparent evaluation criteria, raising concerns as to whether the Corporation obtained the best commercial terms and ensured fairness and equity among suppliers.

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

## 7. Procurement of Insecticides

The statement of financial performance reflects use of goods and services balance of Kshs.744,824,000 as disclosed in Note 7 to the financial statements. The amount includes purchase of insecticides through a contract valued at Kshs.1,600,000 which was awarded to a supplier and issued under Local purchase order at the Agricultural Development Corporation Kitale regional office without obtaining the mandatory written approval from the Managing Director. This was contrary to Clause 2.1.2 of the Corporations Procurement Policies and Work Instructions, which requires that all approvals shall be exercised by the Managing Director.

In addition, the procurement amount exceeded Kshs.1,000,000 approval threshold but was not approved in writing by the Managing Director, thereby contravening Clause 4.4 on approval limits for purchase orders in the same policy.

In the circumstances, Management was in breach of its procurement policy.

## 8. Failure to Commence Climate Change Programmes

Review of activities and programmes for the Corporation revealed that no action plan regarding climate change was put in place. The Corporation did not have a designated unit with sufficient staff and financial resources and did not appoint a senior officer to coordinate the mainstreaming of the climate change action plan and other climate change statutory functions into its sectoral strategies. This was contrary to Section 15(5) of the Climate Change Act, 2016 among others, requiring each State Department and National Government Public entity to integrate the climate change action plan into sectoral strategies, action plans and other implementation projections for the assigned legislative and policy functions.

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

### 9. Lack of Financial Data Integration with Field Branches

Review of data linkage between ADC head office and branches revealed that the Corporation does not have an IT system or any integrated financial management platform that integrates field data records to the headquarters. The Corporation relies on an outdated Sera Blue System, which only supports basic accounting and financial data entry. Data is manually transferred to the headquarters.

Key operational areas including procurement, payroll, inventory, and asset management are managed manually, outside of any system control environment. This manual setup lacks authorization hierarchies, segregation of duties, data verification, and audit trail functionalities, exposing the organization to operational inefficiencies and financial risks.

Further, it was noted that in the 2023/2024 financial year, Kshs.30 million was allocated for acquisition and implementation of an ERP system, but the project had not commenced as the time of audit. No progress reports, procurement documents, or implementation plans were presented for audit review, contrary to Sections 68(1), 68(2)(a), (b), and 149(1) of the Public Finance Management (PFM) Act, 2012 which requires Accounting Officers to maintain proper financial systems that ensure accurate, complete, and timely recording of all transactions and to safeguard public resources from misuse or loss.

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

### 10. Irregular Engagement of Casuals.

The statement of financial performance and as disclosed in Note 8 to the financial statements reflects a balance of Kshs.633,803,000 for employee costs which includes Kshs.219,858,000 for wages. Review of the human records at the Kitale office revealed that the contract staff were effected in the muster roll before contracts are formalized. Further, contracts are automatically renewed and staff do not go for the required recess. In such cases, they continue in the same positions using other person's identity card numbers and some of the contract workers are moved into muster roll as they wait contract renewal.

In addition, there was no evidence of termination of contract for those contract staff who left service before lapse of the period. This was contrary to employment procedures and Section 37 (1b) of the Employment Act of 2007.

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

### 11. Staff Ethnic Imbalance

Review of the human resource records showed that one ethnic community dominant around Kitale comprised 36% of the total in-post staff. Further, the same community ranked the highest at 43% for the recruitment done during the year under review. This was contrary to requirements of section 7(2) of The National Cohesion and Integration Act, 2008 which requires 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.

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standards require 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, based on the audit procedures performed, except for the effect of the matters 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 governance were not effective.

**Basis for Conclusion**

**1. Weakness in Revenue Collection System**

Review of revenue records and expenditure on ADC Chorlim, ADC Sabwani, ADC Namandala, ADC Japata, ADC Nai, ADC Suam, ADC Olngatongo, ADC Livestock Genetics Centre revealed that ADC uses three methods to record revenue in its systems; cash sale for m-pesa payments, invoice for credit sales and receipt for any other payment method such as bank deposits. These systems are manual and not user friendly.

Further, DC recognizes revenue in its manual records before entering the same manually in the accounting system. Each farm has a stand-alone system which are not integrated in any way with other farms, regional offices or head quarter office. In addition, amounts are paid through bank and Mpesa have to be manually fed into the accounting system.

This was contrary to Regulation 64(1)(a) of PFM Regulations 2015 which provides that an accounting officer and a receiver of revenue are personally responsible for ensuring that adequate safeguards exist and are applied for the prompt collection and proper accounting for, all national government revenue and other public moneys relating to their Ministries, departments or agencies.

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

**2. Non-Compliance to Retirement Age Guidelines.**

Review of the human resource records showed that seven (7) officers who had attained the legal retirement age of 60 years were still on payroll receiving all staff benefits contrary to Section D.21 of the Public Service Human Resource Policies and Procedures which requires that all officers shall retire from the service on attaining the mandatory retirement age of sixty (60) years and sixty five (65) years for persons with disabilities. No sufficient explanation or authorization was provided to explain the continued employment of staff who had attained the mandatory retirement age. Management did not take any action despite this being a prior year audit finding.

In the circumstances, Management was non-compliant with the Public Service Human Resource policies and procedures.

### 3. Discrimination of Gender in Appointment of Board Members

A review of the Board composition revealed that the Board constituted 13 members, of which only two were female. This contravened Article 27 (8) the Constitution of Kenya, 2010 which provides that in addition to the measures contemplated in clause (6), the state shall take legislative and other measures to implement the principle that not more than two thirds of members of elective or appointive bodies shall be of the same gender.

In the circumstances, Management was in breach of the law

### 4. Lack of approval from State Corporations Advisory Committee (SCAC) of the Board Work Plan (Almanac)

The statement of financial performance and as disclosed in Note 9 to the financial statements reflects Board expenses balance of Kshs.20,762,000. However, there was no evidence of approval from SCAC of the Board work plan (almanac) contrary to Circular OP/CAB.9/1A dated 11 March, 2020 which requires that State Corporations to submit their annual board meeting schedule (almanac) to the State Corporations Advisory Committee (SCAC) by June 30th of each year, through their parent Ministry. This almanac should be based on the organizational work plan, statutory obligations, and available budget.

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

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 controls, 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 the Management and 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 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 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 the intention 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 comply with the authorities which govern them and that public resources are applied in an effective way.

The Board of Directors are 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**

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards of Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. 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 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 conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not 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 addition, I consider the entity's control environment 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.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/. This description forms part of my auditor's report.

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

**Nairobi**

**18 December, 2025**