REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

AGRICULTURAL FINANCE CORPORATION

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON AGRICULTURAL FINANCE 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 Finance Corporation set out on pages 1 to 80, which comprise of the statement of financial position as at 30 June, 2025, and the statement of profit or loss and other compressive 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, 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 Finance Corporation as at 30 June, 2025 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Agricultural Finance Corporation Act, Cap 323 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Loans to Customers

1.1. Long Overdue Net Short-Term Loans

The statement of financial position as disclosed in Note 9b to the financial statements reflects net short-term loans to customers balance of Kshs.949,115,000. Included in this balance are loans totalling Kshs.226,297,582 that have exceeded their maturity dates and have remained outstanding for more than one year.

1.2. Non-Performing Net Medium-Term Loans

The statement of financial position reflects a balance for net medium-term loans to customers of Kshs.10,641,675,000 as disclosed in Note 9(a) to the financial statements. Included in this balance is Kshs.1,024,182,861 for the non-performing loans for eight hundred and ninety (890) number of loans in the system.

1.3. Loans Extending Thirty (30) Years

The statement of financial position reflects a net medium-term loan to customers balance of Kshs.10,545,116,000 as disclosed in Note 9a to the financial statements. Included in this balance is Kshs.41,999,357 which relates to non-performing loans and active loans advanced to twenty-two (22) farmers amounting to Kshs.41,999,357 who had reached the maximum period for repayment of thirty years contrary to Section 21 of the Agricultural Finance Corporation Act 1 of 1969. Further, no action was taken by the Board to recover the funds.

The prolonged non-settlement of these balances exposes the Corporation to heightened credit risk and the Corporation may be carrying unrecoverable assets in its books, potentially leading to overstatement of receivables.

In the circumstances, the recoverability and accuracy of the net short-term loans to customers balance of Kshs.949,115,000 and net medium-term loans to customers of Kshs.10,545,116,000 could not be confirmed.

2. Misclassification of Loans into Active Loan Portfolio

The statement of financial position reflects a balance for net medium-term loans to customers of Kshs.10,641,675,000 as disclosed in Note 9(a) to the financial statements. Included in this balance is Kshs.325,744,476 in respect of loans that have been classified as active, but should have been under non-performing based on the principal arrears, interest arrears and collateral registered. Further, the loan applicants have not repaid any instalment from the time the loans were disbursed, some going as far back as over ten (10) years ago.

In the circumstances the accuracy and recoverability of the outstanding loan balance of Kshs.325,744,476 could not be confirmed.

3. Lack of Land Ownership Documents

The statement of financial position reflects property plant and equipment balance of Kshs.1,092,915,000 as disclosed in Note 8 (a) to the financial statements. Included in this balance is Kshs.811,841,000 and Kshs.34,523,000 in respect of building & civil works and freehold land respectively. Review of supporting documents revealed buildings worth Kshs.241,194,917 for Agricultural Finance Corporation offices in various Counties and Kshs.34,058,273 worth of land had no ownership documents. Further, review of the land records revealed that the Corporation have Eldama Ravine and Kimilili land that have not been officially surveyed.

In the circumstances, the ownership and completeness of property plant and equipment balance of Kshs.1,092,915,000 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 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

Repossessed Farm Properties

The statement of financial position reflects repossessed farm properties amounting to Kshs.416,627,000, as disclosed in Note 11 to the financial statements. Review of the Agricultural Finance Corporation's records indicated that the Corporation had repossessed 134 farms, measuring 1,087 hectares and valued at Kshs.416,097,879. Out of these 134 farms, seven (7) had been invaded by squatters, while forty-one (41) had no title deeds.

Holding repossessed farm properties arising from non-performing loans adversely affects the Corporation's liquidity and cash flow, as the expected interest income is lost and resources are tied up in non-earning assets. This situation consequently disadvantages other farmers and companies who could have accessed new loans. Additional costs continue to be incurred in maintaining, monitoring, securing, insuring, and handling legal processes relating to these properties.

No reasons or explanations were provided for audit regarding why the repossessed assets were not disposed off during the year, or why the balances increased by Kshs.23,485,000 and Kshs.2,692,879 in the financial years 2023/2024 and 2024/2025, respectively.

In the circumstances, the Corporation faces reduced liquidity and cash flow, increased holding and legal costs, and the risk of potential loss or diminution of public land and assets.

My opinion is not modified in respect of this matter.

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 the Report on 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 has not resolved some of the issues or given any explanation for failure to resolve them as at 30 June, 2025 that includes;

- i) Unsupported Property, Plant and Equipment
- ii) Overdrawing of Cashbook Through Fraud
- iii) Net Medium Term Loans
- iv) Long Outstanding Short-Term Loans Issued to Customers
- v) Staff Costs-Non-Compliance with SRC Collective Bargaining Guidelines
- vi) Management of Loan System

Other Information

The Directors are responsible for the Other Information set out on page iv to lxvi which comprise of Key Entity Information, The Board of Directors, Key Management Team, Fiduciary Management, Fiduciary Oversight Arrangements, 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 and 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, 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. Unauthorized Rates in Payment of Imprests

The Agricultural Finance Corporation (AFC) Management did not adhere to the daily subsistence allowance rates as guided by the Salaries and Renumeration Commission (SRC) as set out in the circular Ref.No.SRC/ADM/11(156) dated 7 August, 2023 which reviewed allowances for public officers. Salaries and Renumeration Commission (SRC) is mandated by the constitution to set out all renumeration and allowances of public officers. However, the Corporation used daily subsistence allowance rates which were not as set per the Salaries and Renumeration Commission as detailed below;-

AFC Job Group	AFC Rate	SRC Job Group	SRC Rate	Difference
G13	13,000	U	18,200	5,200
G12	9,000	S, T	16,800	7,800
G11	9,000	Q, R	14,000	5,000
G10	7,000	N, P	11,200	4,200
G9	6,000	M	11,200	5,200
G8	6,000	L	11,200	5,200
G7	5,500	K	11,200	5,700
G6	4,500	J	6,300	1,800
G5	4,500	H	6,300	1,800
G4	4,500	G	6,300	1,800
G3	4,500	F	6,300	1,800
G2	4,500	E	4,200	-300
G1	4,500	D	4,200	-300

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

2. Non-Compliance with National Treasury Directive on Pension

The Agricultural Finance Corporation operates two pension schemes namely defined benefit scheme and defined contribution scheme which are managed by trustees. The Corporation had an outstanding pension liability amounting to Kshs.91,000,000 owed to pensioners as at 30 June, 2025. Cabinet approved a payment plan of Kshs.30,000,000 annually for three years to settle this liability to be paid in three-year time starting financial year 2025. In the financial year 2024/2025, the Corporation included the required amount in its budget. Despite this, the funds were not disbursed due to a budget cut by the National Treasury. However, no payments have been made to date.

In the circumstances, Management was in breach of the National Treasury Directive.

3. Outstanding Accounts Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.62,344,000 as disclosed in Note 15 to the financial statements. Included in the balance is Kshs.34,947,000 that was outstanding for more than one hundred and twenty (120) days. Further, review of the lease agreements provided for audit revealed the that Two (2) leases had expired (Trinity Fellowship - Kakamega and National Anticorruption Campaign steering committee) and no evidence was provided to show that the leases were renewed. Three (3) leases, (Baringo County, Maseno University and KPLC - Murang'a), no lease agreement were provided for audit review.

In the circumstances, the recoverability of the Kshs.34,947,000 is doubtful and could not be confirmed.

4. Non-Compliance with Fiscal Responsibility of Wage Bill

Review of the payroll record revealed that Agricultural Finance Corporation had a wage bill of Kshs.535,172,000 in relation to staff costs and total revenue of Kshs.1,014,187,000 as at 31 March, 2025.

The analysis revealed that staff costs accounted for 53% of total revenue, significantly exceeding the 35% threshold established by the Public Finance Management (National Government) Regulations, 2015

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 effects of 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 governance were not effective.

Basis for Conclusion

Irregular Appointment of Board Chairman

The chairman of the Board of the Agricultural Finance Corporation was appointed for a period of three years with effect from 18 November, 2022 vide gazette notice No. 14235 by the Cabinet Secretary for Agriculture and Livestock Development in contravention of Section 6 (1)(a) of State Corporation Act, 2012, which states that unless the written law by or under which a state corporation is established or the articles of association of a state corporation otherwise require, a Board shall, subject to subsection (4), consist of— a chairman appointed by the President who shall be non-executive unless the President otherwise directs. In addition Chapter 1 (1.1) (9) of the Mwongozo code of governance, 2015 states the chairpersons of all State Corporations shall be appointed by the President and shall at a minimum possess the qualification skills and experience set out in attachment I.

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

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 Financial Reporting 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 is responsible for overseeing the *Corporation's* financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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