REPUBLIC OF KENYA

REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

AGRICULTURE AND FOOD AUTHORITY (AFA)

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke

REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL
Enhancing Accountability

HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON AGRICULTURE AND FOOD AUTHORITY (AFA) 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 Agriculture and Food Authority (AFA) set out on pages 1 to 104, which comprise of the statement of financial position as at 30 June, 2025 and the statement of financial performance, statement changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Agriculture Food and Authority (AFA) 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), Agriculture and Food Authority Act, 2013 and comply with and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unconfirmed Revenue from Exchange Transactions

The statement of financial performance reflects revenue from exchange transactions amount of Kshs.5,272,615,000. Included in this amount is levies, fines and penalties revenue amounts of Kshs.4,128,190,000 net of capital funding of Kshs.355,900,000 as disclosed in Note 7 to the financial statements. In addition, the amount includes licenses, fees and permits revenue amount of Kshs.94,424,000 as disclosed in Note 8 to the financial statements. The following anomalies were noted; -

i. The Authority did not maintain corresponding internal records for the levies, fines and penalties revenue amounts of Kshs.4,128,190,000 and an amount of Kshs.93,769,000 for licenses revenues all totalling Kshs.4,577,859,000 to support the amounts collected through E-Citizen (PesaFlow) and the Trade Facilitation Platform (KenTrade). In the absence of such records, the audit could not ascertain whether all revenue collected on behalf of the entity by the National Treasury and KenTrade was fully and accurately recorded in the financial statements.

ii. The supporting records from E-citizen (Pesaflow) and Trade Facilitation Platform (Ken Trade) and the report provided for review, lacks key details like individual customer data, invoice numbers and sequential flow of receipts numbers against the monies received for ease of tracking and reconciling all payments that were received within that period on behalf of AFA.

iii. Management reported an amount of Kshs.655,000 as income received from fees. However, it could not be confirmed how this income was realized from each directorate since the supporting schedules lacked key details like individual customer data, description of service rendered, invoice numbers and sequential flow of receipts numbers against the monies received for ease of tracking and reconciliation of these receipts.

In the circumstances, the accuracy and completeness of the revenue amounts of Kshs.4,232,859,000 could not be confirmed.

2. Receivables from Exchange Transactions

The statement of financial position reflects receivable from exchange transaction of Kshs.526,256,000 as at 30 June 2025. The composition of the amount is disclosed in Note 23 as Rent debtors Kshs.71,507,000, Trade debtors Kshs.35,799,000, Prepayments Kshs.33,000, Other debtors Kshs.1,446,000, Cess Debtors Kshs.69,271,000, Receivable from PPCK Kshs.196,631,000 and Interest receivable from bank Kshs.151,568,000. However, review of the aging analysis of receivables from exchange transaction revealed that debts totalling Kshs.308,341,000 has been outstanding with Kshs.7,342,000 outstanding for more than two - three years and Kshs.300,999,000 outstanding for more than three years. However, no explanation was provided as to why Management did not enforce the provisions of paragraph 7.5 of the Authority's finance policy and procedure manual 2018.

In the circumstances, the recoverability of Kshs.308,341,000 outstanding for over two years could not be confirmed.

3. Non-Current Employee Benefit Obligations

The statements of financial position reflect current employee benefit obligation of Kshs.1,257,386,000 as disclosed in Note 32 to the financial statements, in respect to the current benefit obligation (provision for salaries harmonization arrears). Review of documents for audit revealed that, salaries and remuneration commission vide letter REF SRC/TS/JE/SRSC/3/33/4 VOL.IX(106) dated 19 August, 2020 approved the salary structure for Agricultural and Food Authority which was to be implemented from 1 July, 2020 without backdating of the salaries. However, the Corporation had requested for the consideration of un-harmonized arrears dating back to when the Corporation was formed and therefore initiated an appeal for the consideration of salary arrears accrued from un-harmonized salary structure from 2014 until the harmonization of salaries in 2020 letter REF: AFA/HRM/7/VOL.V(6) of 11 October, 2023. In this regard, the Board held its first meeting on 16 May, 2023 and gave the matter consideration. However, the AFA is still negotiating for the arrears to be considered and be approved by SRC five (5) years since the initial SRC approval. In addition, the probability of outflow of this amount is uncertain yet it has been classified as a provision. Management acted contrary to the Salaries and Remuneration Commission circular REF SRC/TS/JE/SRSC/3/33/4 VOL.IX(106) dated 19 August, 2020.

In the circumstances, the accuracy and occurrence of the current employee benefit obligation of Kshs.1,257,386,000 could not be confirmed.

4.0 Property, Plant and Equipment

4.1 Unconfirmed Ownership of Land

The statement of financial position reflects property, plant and equipment net book balance of Kshs.8,674,588,000 as disclosed in Note 25 to the financial statements. As previously report review of records revealed the following anomalies.

i. The balance includes seventeen (17) parcels of freehold land valued at Kshs.6,664,284,000 out of which thirteen (13) parcels of land valued at Kshs.5,170,700,000 had no evidence of ownership vesting with the Authority due to lack of the documents,

ii. The balance includes land on which six of the seven depots of the defunct Horticultural Crops Development Authority (HCDA) are located do not have ownership documents. In addition, the depot located in Machakos County was taken over by the County Government of Machakos for office use in the year 2013 and is no longer accessible to the Authority staff and no evidence was provided that the County Government signed a lease agreement with the HCDA.

iii. Included in the property, plant and equipment balance are two parcels of land valued at Kshs.1,280,000,000 relating to the former Horticultural Crops Development Authority. The parcels include a plot situated along Mombasa Road, measuring 3.5 hectares valued at Kshs.692,000,000 which was allocated to a private developer despite the Authority having an allotment letter and a parcel of land at the Jomo Kenyatta International Airport (JKIA) valued at Kshs.588,000,000 where the Horticultural Crops Directorate (HCD) is located whose details of ownership was not provided.

4.2 Exclusion of Land Parcels from Property, Plant and Equipment Balance

As reported in previous years, the property, plant and equipment balance exclude values of various assets as explained below:

i. Ten (10) acres of land situated in Wundanyi, Taita-Taveta

ii. Land of undetermined acreage situated in Kitui valued at Kshs.36,600,000 allocated to the defunct Horticultural Crops Development Authority.

iii. Land of undetermined acreage valued at Kshs.4,000,000 allocated to the defunct Cotton Board of Kenya.

iv. Seven (7) acres of land in Mtwapa that was allocated to the defunct Kenya Coconut Development Authority by the defunct Kenya Agricultural Research Institute. (KARI). In addition, the ownership had not been transferred by the KARI to the Authority by the time it ceased to exist upon the commencement of the Crops Act, 2013

v. The property in Riverside Estate where the defunct Cotton Development Authority's head office was located.

In the circumstances, the accuracy, ownership and completeness of property, plant and equipment net book balance of Kshs.8,674,588,000 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Agriculture Food and Authority (AFA) 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. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects budgeted and actual revenue amounts of Kshs.6,285,503,000 and Kshs.5,622,846,000 respectively resulting in an underfunding of Kshs.662,657,000 or 11% of the budget. Similarly, the statement reflects actual revenues and expenses of Kshs.5,622,846,000 and

Kshs.5,100,017,000 respectively resulting in an underutilization of Kshs.522,829,000 or 9% of the budget.

In the circumstances, the underfunding and affected planned activities and may have impacted negatively on service delivery.

2. Long Outstanding Payables

The statement of financial position and Note 28 to the financial statement reflects trade and other payables balance of Kshs.663,873,000. However, review of the Horticultural Crops Directorate ageing analysis revealed a significant balance payable to Kenya Airports Authority totalling Kshs.156,437,152. The amount represents approximately 23.56% of total payables indicating a significant concentration of liability owed to a single service provider.

Such a significant outstanding balance on one Supplier may expose the entity to service disruption risks, potential penalties, and questions regarding the adequacy of its payable management practices

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, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

Unresolved Prior Year Audit issues

Several issues were raised in the audit report of the previous year. However, Management has not resolved the issues nor given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and the National Treasury's Circular;

1. Long-Outstanding Debts from Exchange Transaction
2. Property, Plant and Equipment
   - 2.1 Unconfirmed Ownership of Land
   - 2.2 Exclusion of Property, Plant and Equipment
   - 2.3 Failure to Revalue Fully Depreciated Assets
   - 2.4 Logbooks in the Name of Defunct Institutions and Boards
3. Unsupported Fixed Deposit Account
4. Failure to Operationalize the Cane Testing Unit

Other Information

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

In connection with my audit on the Authority'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. Construction and Equipping of Hot Water -Treatment Plant at the Nairobi Horticulture Centre

The Authority awarded the contract for construction and equipping of hot water treatment plant at the Nairobi Horticulture Center through contract No AFA /LM/CON/23/2022 at contract sum of Kshs.85,319,345.38. The contract was supposed to run for a period of five (5) months from the signing date of on 22 June, 2022. The project commenced on 14 July, 2022 with original completion date expected to be 17 January, 2023. The following additional anomalies are detailed below:

i. The contractor requested for extension of contract period for six (6) months on 1 February, 2023 starting from 1 January, 2023 to 30 June, 2023 stating that delayed payment of certified works caused the project to stall. The project manager granted the extension on 26 April, 2024. Further, the second extension was requested on 29 June, 2023 extending the completion date from July, 2023 to 30 November, 2023 which was extended from 1 October, 2023 to 30 November, 2023. The project manager issued the default notice to the contractor on August, 2023 for abandoning the site without notice. The contract period was further extended with eight (8) months from 1 December, 2023 to 31 July, 2024
ii. Review of minutes of project implementation committee revealed that there was no clear justification from the technical department for variation of contract in writing backed by supporting evidence and submitted to the head of the procurement function for processing. In addition, Public Procurement and Assets Disposal Regulation, 2020
iii. The concept Note on establishment of hot water treatment facility for mango at Nairobi Horticultural centre (NHC) date 20 December, 2021 to Principal

Secretary - National Treasury and planning indicated that the estimated cost of the project was Kshs.79,000,000. The amount to be financed by Government of Kenya was Kshs.54,000,000 and Kshs.25,000,000 by development partners. However, the project cost had been funded from internally generated funds. Further, the successful bidder quoted a price of Kshs.88,505,545 as per the bill of quantity thus exceeding the engineers estimated cost by Kshs.9,505,545. Additionally, the price was further negotiated hence revising the tender price to Kshs.85,319,345.38 inclusive of all taxes.

iv. The original contract period expired on December, 2022 and extension of contract period was done through letters. However, the addendum extending the original contract period was not provided for audit. There was no binding contractual agreement existing between the contractor and Authority as at the time of the audit.

    The performance bond issued on 28 January, 2024 expired on 30 May, 2025 contrary to PPDA Act, 2015 and regulations which requires performance security to be returned to the successful tenderer within thirty (30) days following the final acceptance by the accounting officer of the procuring entity and in case the contract is not fully or well executed, the performance security shall unconditionally be fully seized by the procuring entity as compensation without prejudice to other penalties provided for by the Act.

v. Physical verification carried out in June, 2025 the project was still not complete and there was no evidence for extension of the contract period and the contractor had abandoned the site.

In the circumstances, delays in completion of project may attract unavoidable cost due to price fluctuation of the equipment and possible loss of public funds through abandonment of the uncompleted project.

2. Delay in Renovations at Coffee Plaza Building Exchange Lane of Haile Selassie Avenue

The Agriculture and Food Authority entered into a contract for provision of renovation services at Coffee Plaza building exchange lane off Haile Selassie Avenue vide contract No. AFA/CON/6/2024 at a contract sum of Kshs.58,613,685 for a period of six (6) months. The site was handed over on 5 August, 2024 and works commenced on 2 September, 2024 with expected completion date of 20 January, 2025.

However, the following observations were noted;

2.1 Extension of the Contract Period

Examination of records provided for audit revealed that the contractor on 9 January, 2025 requested for extension of contract period for ten (10) weeks citing delays due to issuance of electrical drawings, handing over of eight floor and additional works not in the initial scope. However, the project manager recommended the extension of contract period on 20 January, 2025 from 20 weeks to 25 weeks revising the completion date to 24 February, 2025 which was approved by the Director General on 20 January, 2025.

Further, the contractor vide letter dated 11 February, 2025 thirteen days to the proposed completion date of the contract submitted another application for extension of the contract period for another eight (8) weeks in which only seven (7) weeks was granted on 21 February, 2025 extending the contract period from 20 weeks to 33 weeks with revised completion date of 23 April, 2025. However, by the time of audit in May, 2025, the contract was still ongoing.

In the circumstances, delayed works may attract unavoidable costs due to price fluctuation and possible loss of public funds

2.2 Budgetary Allocation and Approvals

Review of procurement plan and approved budget for the financial year 2024/2025 revealed that expenditure on refurbishment works totaling Kshs.58,613,685 had not been approved. Further, the supplementary budget was not provided for audit to demonstrate how the unapproved amount was regularized.

In the circumstances, the unauthorized expenditure and failure to provide supplementary budget for audit review may lead to loss of public funds.

3. Rehabilitation of Nzoia Sugar Company

3.1 Delay in Delivery of Machine

The statement of financial performance reflected disbursement of Kshs.1,475,023,000 and as disclosed in Note 13 to the financial statements includes Kshs.256,599,000 disbursed to Nzoia Sugar Company which further includes 46,000,000 for rehabilitation of the sugar processing plant through the procurement of key equipment and replacement of obsolete parts. Further, an amount of Kshs.43,419,529 was used to procure mill rollers and boiler tubes. However, examination of records provided during audit verification revealed that the factory procured parts of processing machines, including blank mill roller shells, through tenders initiated in May, 2022, and boiler bank tubes in December, 2024 and fully paid
Physical verification in July, 2025 (six months later), the machines had not been delivered to the Sugar Company and the Management explained that the machinery had been imported into the port of Mombasa and no proper explanation was provided to why the machinery was not be delivered to the factory.

In addition, it could not be confirmed whether the new investor will make use of the machinery once delivered and installed, since the company has been leased to a private investor for a 30-year lease term and whether the lease agreement took into account cost of the imported machinery.

In the circumstances, the delay in delivery of Machine may attract unavoidable cost due to price fluctuation of the equipment and the unconfirmed use by the new investor may lead to possible loss of public funds.

4. Property, Plant and Equipment

4.1 Failure to Operationalize Cane Testing Unit

The contract agreement for provision of comprehensive support and maintenance services to eleven (11) testing units between Agriculture and Food Authority was entered on October, 2023 vide contract No:AFA/LM/CON/60/2024. The contract was to run for a period of three (3) years from 25 October, 2023 to 24 October, 2026. During the 1st year, the Authority was to pay the contractor amount not exceeding

Kshs.406,037,942 and subsequent 2nd and 3rd years would be agreed upon by both parties in writing at the end of the 1st year.

Further, addendum to the contract for provision of comprehensive support and maintenance services to eleven cane (11) testing units software licenses was signed on 6 November,2024 vide contract No:AFA/LM/CON/60A/2024 at an annual cost of Kshs.446,552,203 inclusive of all taxes for the period of one(1) year running from 25 October, 2024 to 24 October, 2025.

Review of the letter from Supplier to Director General - Agriculture and Food Authority dated 28 October, 2024 indicates that the second-year contract value was Kshs.470,054,950 but was discounted at 2.5% which is applicable in the second year of the contract. Further, the Authority incurred a cost of Kshs.178,620,851 being 40% of the contract sum for provision of comprehensive support and maintenance services to eleven cane (11) testing and software licenses for the second year of the contract Cane Testing Unit (CTU) period covering 25 October, 2024 to 24 October, 2025 on 11 December, 2024 vide payment voucher no 16345. Further, the supplier was paid 60% of contract sum of Kshs.267,931,351 on 29 December, 2024 vide payment all totaling to Kshs.446,552,202.

Further, audit verification in the month of July on the operation of cane testing units observed the following:

i. Lack of Legal Framework to Operationalize the Cane Testing Units

The eleven (11) cane testing units were installed in the sugar companies and calibration of the equipment was done but not operational since the Sugar (Quality-Based Sugarcane Payment System) Regulations, 2025 has not been enacted, therefore, there is no legal frame work to anchor the rolling out of cane testing units.

In the circumstances, lack of legal framework to operationalize the cane testing units implies that the set objectives have not been achieved.

ii. Uncertainty Time-Scale for the Accreditation of Wet and Dry Laboratories

Verification of the installed Sugar Cane Testing Units within the South Nyanza Sugar factory and Chemilil Sugar factory, Muhoroni Sugar Factory and Nzoia Sugar Factory established that, the Cane Testing Units are not in operation. Further, the wet and dry Laboratory are yet to be accredited by Kenya Accreditation service (KENSA) due to the following pending requirements;

i. Lack of a Quality Manual, procedures and policies on operationalizing Sugar Cane Testing Units.
ii. Incomplete results of successful participation in proficiency testing in tests applied for application.
iii. Resumes of nominated technical signatories
iv. Mandatory procedures and documentation as required by ISO/IEC 17025:2017 on testing laboratories and Calibration laboratories processes for accreditation.
v. Outline and identify the key areas of risks and develop a risk register with mitigation strategies for the Cane Testing Units.
vi. A cross reference matrix to standard requirements showing proper mapping on compliance against the set standards.
vii. Evidence of legal entity status of the client

viii. Evidence of staff having been trained on the requirements of ISO/IEC 17025:2017.
ix. A complete periodic internal audit and management reviews conducted prior to the Accreditation assessment to ensure compliance and integrity/quality of the system.
x. Five-year proficiency testing schedule for testing/calibration laboratories.
xi. AFA to satisfy all other relevant ISO/IEC Standard/Guide and any International interpretation thereof, and requirements to enable the assessment team to make positive recommendations to the Accreditation Committee (AC).

In the circumstances, lack of delivery of Accreditation of Wet and Dry Laboratories may hinder project delivery on time.

iii. Lack of integration of LMIS and Weigh Bridge System

The Cane Testing Units are yet to be integrated with the existing Factory Enterprise Resource System, Weigh bridge and Laboratory Information Management System (LIMS) due to issues of incompatibility. These are further hampered by the new leasing of Sugar factories to private owners while the Cane Testing Units are still under Agriculture and Food Authority. There are no guidelines on how the CTUs will be acquired, operated and maintained forthwith with the new factory management.

In the circumstances, lack of compatibility of the integration of LMIS and Weigh Bridge System could delay completion and the objectives of the project may not be achieved.

iv. Inadequate Personnel in the Cane Testing Units Laboratories.

The Sugar Cane Testing Units are also incapacitated in terms of the number of personnel in charge of the laboratories. All of the Cane Units visited for verification had only one staff in charge who was carrying out all the activities within the lab which is in contrast with the CTU operations manual guides that no one should work alone in the laboratory. A resumption of full adoption and operationalization of the CTUs will require more laboratory staff to enhance efficiency in operations and the expected outputs from the Laboratory.

In the circumstances, the set objectives for the CTU's may fail to be achieved and the value for money may not be realized.

5. Failure to Deduct and Remit Procurement Capacity Building Levy to PPRA

The statement of receipts and payments for the year ended 30th June 2025 reflects an amount of Kshs.1,733,516,000 under note 12 relating to Use of Goods and Services. During the financial year under review, it was noted that the authority had entered into contracts with various suppliers for crop development, capacity building and technology transfer, compliance monitoring, surveillance and market development activities to support functions of the authority as highlighted in note 12 to the financial statements. However, it was observed that the authority did not deduct and remit returns to Public Procurement Regulatory Authority (PPRA). The PPRA Authority on 30th August, 2024 notified all procuring entities and other stakeholders through a public notice of the commencement date as 1st September, 2024 for the Levy Order, 2023.

In the circumstances, the authority was in breach of the law on deduction and remittance of 0.03% of the value of all signed contracts with the authority.

6.0 Human Resource

6.1 Irregular Payment of Special Duty Allowance

Examination of documents provided for audit revealed that twenty-five (25) officers have been receiving special duty allowance way past the legal period of six (6) months contrary to section C 15 (4) of the Public Service Human Resource Manual, the irregular allowance advanced for the period amounts to Kshs.2,322,832.

In the circumstances, Management acted contrary to the Public Service Human Resource Manual which may lead to loss of public funds.

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(s) of the matter(s) 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. Failure to Collect Rental Revenue (HCD)

During the audit of the Horticultural Crops Directorate (HCD) rental aged accounts receivable, the auditors noted that the Directorate had an outstanding rental income balance of Kshs.37,265,142 as of 11 June, 2025. Out of this amount, Kshs.32,651,148.25 is owed by the County Government of Machakos, which has been occupying the packhouse facility in Machakos.

Further, the audit established that the last rental invoice was raised on 3 July 2023, indicating that HCD has not invoiced the County Government for nearly 2 years. This suggests that the actual outstanding balance could be significantly higher than what is recorded.

In the circumstances, management may have failed in the delivery of services to members of public.

2. Board Matters

Examination of board of Director's records provided for audit revealed the following issues:

2.1 Failure to Carry Out Annual Governance Audit.

Examination of the Corporation's board minutes on governance revealed that the organization did not carry out an annual governance audit within the period under review and as such, the Board was in breach of the law.

In the circumstances, the Board was in violation of the Mwongozo Code of Governance.

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 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 State Department'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 *State Department'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