REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

AGRO-CHEMICAL AND FOOD COMPANY LIMITED

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON AGRO-CHEMICAL AND FOOD COMPANY LIMITED 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 Agro-Chemical and Food Company Limited set out on pages 1 to 61, which comprise of the statement of financial position as at 30 June, 2025, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows, and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Agro-Chemical and Food Company Limited 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 (IFRS) and comply with the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Material Uncertainty Related to Going Concern

The statement of financial position reflects current liabilities balance of Kshs.11,953,220,827 which exceeded the total current assets balance of Kshs.1,359,209,787 resulting in a negative working capital of Kshs.10,594,011,040. Further, the Company incurred a loss of Kshs.46,002,031. This is an indication that the entity may not be able to settle its obligations as and when they fall due. Management did not demonstrate tangible measures being undertaken to reverse the negative trend which casts doubt on the Company's going concern. In addition, the shareholder's equity has negative net balance of Kshs.8,178,043,345, an indication that the Company is technically insolvent which casts doubt on its ability to continue as a going concern.

In the circumstances, these conditions alongside other matters on profitability are indicative of the Company's inability to continue as a going concern.

2. Unsupported Write Back or Write Off on Debtors/Creditors

The statement of profit or loss and other comprehensive income and as disclosed in Note 11 to the financial statements reflects an amount of Kshs.303,315,053 in respect of administrative cost which includes write back or write off on debtors /creditors amounting to Kshs.2,389,983. However, Management has not provided approval of such write off /write back.

In the circumstances, the accuracy and completeness of the amount on administrative costs of Kshs.303,315,053 could not be confirmed.

3. Long Outstanding Receivable Debts under Trade and Other Receivables

The statement of financial position and as disclosed in Note 18 to the financial statements reflects a balance of Kshs.641,982,473 in respect trade and other receivables, which is net of provision for bad and doubtful debts amounting to Kshs.66,188,541. However, review of the debtors aging analysis revealed long outstanding debtors amounting to Kshs.215,960,908 or 34% which have exceeded 120 days due for collection and Management has not demonstrated how they are going to recover the long outstanding debts.

In the circumstances, the recoverability of the long outstanding debtors amounting Kshs.215,960,908 remains doubtful.

4. Long Outstanding Trade Payables

The statement of financial position and as disclosed in Note 25 to the financial statements reflects a balance of Kshs.608,650,337 in respect of trade and other payables. However, review of the trade payables ledger revealed that invoices amounting to Kshs.45,589,944 had remained unpaid for more than 120 days contrary to Regulation 150(1) of the Public Procurement and Asset Disposal Regulations, 2020 which requires that, subject to the availability of funds and proper certification of goods, works, or services, payments should be made promptly and, in any case, not later than sixty (60) days from the date of receipt of invoice

In the circumstances, the obligation to pay the long outstanding payables balance of Kshs.45,589,944 could not be confirmed.

5. Unsupported Directors Expenses

The statement of profit or loss and other comprehensive income and as disclosed in Note 11 to the financial statements reflects an amount of Kshs.303,315,053 in respect to administrative cost which includes board and committee sitting allowances amounting to Kshs.6,379,103. However, review of sampled board expenses during the year under review revealed payments amounting to Kshs.1,402,170 were not accounted for and supported with the relevant expenditure documents.

In the circumstances, the accuracy and completeness of board and committee allowances amounting to Kshs.6,379,103 could not be confirmed.

6. Un-Serviced Long Outstanding Loans

Review of the loans portfolio and as disclosed in Note 27 to the financial statements, revealed that the Company's has outstanding loans amounting to Kshs.11,300,885,652. The Company took a seven-year loan of Kshs.2,941,884,000 from Paris club in 1995 for construction of the factory vide a loan agreement dated 19 October 1995 at an interest rate of 7% per annum. However, the company has not repaid the loan to date resulting in an accumulated interest on the loan of Kshs.6,986,974,425. In addition, the Company took a GOK loan of Kshs.826,074,773.80 in 1995 and last serviced the loan in 2017. The loan has accumulated interest amounting to Kshs.1,372,027,228. Management has not demonstrated measures taken to repay the loans.

In the circumstances, the Company's ability to pay the long outstanding loan balance of Kshs.11,300,885,652 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Agro-Chemical and Food Company Limited 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

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual receipts on comparable basis amounting to Kshs.3,214,773,935 and Kshs.2,103,964,744 respectively resulting in underperformance of Kshs.1,110,809,191 or 35% of the budget. Similarly, the Company expended Kshs.814,528,568 against the approved budget of Kshs.737,810,758 resulting to over expenditure of Kshs.76,717,810 or 10% of the approved budget. This was contrary to Section 44 of the Public Finance Management Act, 2012 which requires all Government entities to operate strictly within the approved budgetary allocations, and to obtain supplementary approval before incurring any additional expenditure.

The underperformance on revenue affected the planned activities and may have impacted negatively on service delivery to the public.

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 Matters

In the prior year's audit report, 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. Review of the status during the audit of Company in 2024/2025 revealed that numerous matters remained unresolved as at 30 June, 2025 as detailed in **Appendix I**.

Other Information

Directors are responsible for the Other Information set out on page iii to xxxix which comprise of Key Company Information, The Board of Directors, Management Team, Chairman's Statement, Report of the Resident Director and Chief Executive, Statement of Performance against Predetermined Objectives for the financial year 2024/2025, Corporate Governance Statement, Management Discussion and Analysis, Environmental Sustainability Reporting, Report of the Directors and the Statement of Director's Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the Company'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. Irregular Procurement of Molasses

The statement of profit or loss and other comprehensive income and as disclosed in Note 7 to the financial statements reflect an amount of Kshs.1,341,685,645 in respect of cost of sales which includes cost of materials, energy and packing amounting to Kshs.980,623,927 which include cost of molasses amounting to Kshs.471,417,034. Review of procurement plan provided for audit revealed that Management planned to use specially permitted procurement method to procure molasses during the year under review. However, no justification and approval has been given by the Management on the use of the specially permitted procurement method contrary Regulation 107(2) (a), (c) and (d) of the Public Procurement and Assets Disposal Regulations 2020 which provides that pursuant section 114A (3) of the Act and in applying the Specially Permitted Procurement Procedure referred to under paragraph (1), an accounting officer shall approve and issue written justification for use of the procedure upon considering its uniqueness from the other methods of procurement set forth in the Act prepare tender documents for the subject procurement which shall at least include a specification, conditions of tendering and contracting and submit the tender documents and the proposed procedure to the Cabinet Secretary for approval detailing the justification for the use of the method.

Further, Management have not provided procurement records to support procurement of 75,318 tonnes of molasses costing Kshs.471,417,034 an indication that the procurement was a mockery to the provisions of Procurement Act, 2015 and Regulations, 2020.

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

2. Non-Inclusion of Disposals in the Disposal Plan

The statement of financial position and as disclosed in Note 15(a) to the financial statements reflects a balance of Kshs.205,000 in respect of disposal of computers and accessories and furniture and equipment combined under property, plant and equipment movement schedule. However, review of the disposal plan, during the year under review revealed that the said disposals were not provided for in the 2024/2025 disposal plan an indication of lack of basis and method of disposal. This is contrary to Regulation 176. (1) of the Public Procurement and asset Disposal Regulations, 2020 which states that an accounting officer of a procuring entity shall ensure that an annual assets disposal plan is prepared of items declared as unserviceable, surplus or obsolete, obsolescence stores, asset or equipment as set out under section 53(4) of the Act.

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

3. Non-Compliance with One Third of Basic Pay Rule

Review of the Company payroll records revealed that the net salaries for various officers were less than one third of their basic pay. This was contrary to Section 19(3) of Employment Act, 2007 provides that without prejudice to any right of recovery of any debt due, and notwithstanding the provisions of any other written law, the total amount of all deductions which under the provisions of subsection (1), may be made by an employer from the wages of his employee at any one time shall not exceed two-thirds of such wages or such additional or other amount as may be prescribed by the Minister either generally or in relation to a specified employer or employee or class of employers or employees or any trade or industry.

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

4. Non-Compliance with Law on Ethnic Composition

Review of the personnel records revealed that the Company had two hundred and twenty-two (222) members of staff out of which one hundred and seventeen (117) or 53% were from the dominant community. This was contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that, all public offices shall seek to represent the diversity of the people of Kenya in the employment of staff and that no public institution shall have more than one-third of its staff establishment from the same ethnic community.

In addition, analysis of recruitments done during the year under review revealed that out of nineteen (19) new appointments, 10 or 53% were members of the dominant ethnic community in the region an indication that Management has not progressively addressed the ethnic composition in the Company.

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

5. Non-Compliance with Law on Representation of People with Disabilities

Review of the Company's payroll revealed that the Company had a total number of two hundred and twenty-two (222) employees out of which only 5 or 2.25 % were persons with disabilities. Further, review of recruitments done during the year under review, revealed that out of 19 new appointments, none was person with disabilities. This was contrary to Section B 23 (2) of the Human Resource Policies and Procedures Manual for the Public Service, May 2016 on the rights and privileges of persons with disabilities on all appointments, which sets a threshold/Principle of 5% of positions to be filled by persons with disabilities.

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

6. Staff Over establishment

Review of the approved staff establishment against the actual staff employed and, in the payroll, revealed that the establishment and payroll have unapproved positions resulting to over-establishment as tabulated below

Position	Staff Establishment	Actual	Variance
Environment Assistant/Senior	5	6	1
Human Resource Assistant /Senior	2	3	1
Principal Sales and Marketing Assistant	1	3	2
Principal Audit Assistant	0	1	1

This is contrary to Section B.2 (1) of the Human Resource Policies and Procedures Manual for the Public Service (2016) which states that an entity shall prepare Human Resource Plans to support achievement of goals and objectives in their Strategic plans. The plans shall be based on comprehensive job analysis and shall be reviewed every year to address emerging issues and needs.

In the circumstance, Management was in breach of the law

7. Non-Compliance with Provisions of the Human Resource Policy on Special Duty

Review of payroll records revealed that ten (10) staff members were paid special duty allowance for more than six (6) months contrary to Section C.15 (1) and (4) of the Human Resource Policies and Procedures Manual for the Public Service (2016) which states that when an officer is called upon to perform duties of a higher post but does not possess the necessary qualifications for appointment to that post, he shall be paid special duty allowance at the rate of fifteen per cent (15%) of the officer's basic salary. The payment of special duty allowance will be subject to recommendation by the Human Resource Management Advisory Committee and approval by the Authorized Officer and Special Duty Allowance will not be payable to an Officer for more than six (6) months.

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

8. Irregular and Inadequate Management of Sales Orders

Review of the sales orders records revealed that sales orders were received from customers via emails, telephone calls, WhatsApp and text messages. A register was maintained but does not capture and track all the orders while communication is done on a WhatsApp group that does not have a backup and is exposed to cyber risks. This could lead to loss of data on the sales orders.

This is contrary to Section 14 (1) of the State corporations act which require that "Every state corporation shall keep or cause to be kept proper books recording all the property, undertakings, funds, activities, contracts, transactions and other business of the state corporation

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

9. Lack of Marketing Strategy

Review of the sales and distribution information showed that although the Company has several products it has not developed a marketing strategy for any of them resulting to the Department's inability to measure performance against any set targets. This is contrary to Paragraph 1,2(c) of the Mwongozo code of governance which states that it's the role of the board to set and oversee the overall strategy and approve significant policies of the organization.

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

10. Appointment Letters not Acknowledged by the Board Members

Review of the Board records revealed that members of the Board did not acknowledge appointment to the board contrary to Part 1.1(13) of the Mwongozo code of governance for state corporations which states that each board member shall signify their acceptance of the appointment in writing. No explanation has been given for failure to acknowledge the appointments.

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

11. Use of Asbestos Roofing

Audit inspection carried out in the Month of June, 2025 revealed that the Company's premises had an old administration block and some staff houses roofed with asbestos contrary to Legal Notice No. 121 of the Environmental Management and Coordination (Waste Management) Regulations, 2006. Despite the existing government directives, the asbestos roofing has neither been removed nor replaced, and no documentation was provided to confirm plans for safe disposal or replacement in compliance with NEMA-approved procedures.

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

12. Procurement of Fuel From Un-Prequalified Supplier

Review of the procurement records and documents provided for audit revealed that the Company procured fuel from a firm amounting to Kshs.2,505,345. However, the supplier was not in the list of pre-qualified suppliers contrary to Section 94 (1) and (2) of Public Procurement and Asset Disposal Act 2015, which states that an accounting officer of a procuring entity shall promptly issue pre-qualification documents to all candidates who request them and shall maintain a record of all candidates to whom documents are issued and the pre-qualification document shall contain all the information specified in section 93 and any other information necessary for the potential candidates to prepare and submit applications to be pre-qualified.

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

13. Tender for Proposed Septic Tank Construction at the Factory

The Company procured services from a firm for construction of a septic tank at the plant at a contract price of Kshs.3,029,751. However, a site visit in the month of June 2025, revealed that the bill of quantities part (K), (L) and (O) indicated that the soak-pit was to be rock-filled to pit and murram filled to pit as instructed and it was to have a manhole construction c/w covering an average 1.2 *1.2 *1.5 m deep totalling to six (6) in number. However, only 4 manholes were constructed. In addition, the practical completion and handing over certificate dated 29 January, 2025 showed that the project was handed over but there was no evidence to show how the works not done will be addressed.

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

14. Discharge of Effluent into River Nyando without Complying with the Standards

Site visit in the month of June, 2025 across the entire plant from the production processes (initial stages) to the final processing of the Company's products, namely alcohol, yeast, and carbon dioxide, the climate change is one of the subject matters and a critical area of interest, where the site visits also included an assessment of the Company's environmental management practices, with particular attention to the operation and maintenance of the wastewater treatment plant (WWTP).

However, the verification of the effluent discharge system revealed that the WWTP is not operating as required under prescribed technical standards due to the following anomalies;

i. 8 out of 12 aerators were non-functional and further inquiry and review of reports revealed that the problem dated back to 2022. Initial servicing in late 2022 revealed four faulty units (Nos. 3, 4, 7, and 9), of which only No. 9 was repaired. The others were removed for workshop maintenance but have not been returned since. Between March, 2023 and January, 2025, additional aerators (Nos. 1, 5, 6, 8, 11, and 12) also failed, and none have been successfully repaired to date.

ii. The stirrer in the clarifier which helps in the proper settling and separation of solid particles (sludge) from treated water after the biological treatment stage has not been operational for several years now. As a result, the quality of the effluent being discharged does not comply with the limits set out in the Third Schedule of the Environmental Management and Coordination (Water Quality) Regulations, 2006.

This non-compliance is supported by the effluent quality analysis certificates issued by the Government Chemist's Department, dated 9 December, 2024 and 24 January, 2025. The results show multiple parameters exceeding the permissible limits, as summarized below:

Results for 1st Quarter dated 09/12/2024		
Parameters	Regulatory Limit (NEMA 3rd Sch)	Measured Value (Ex-Lagoon 7)
Bio chemical Oxygen Demand	30	638
Chemical Oxygen Demand (C.O.D). Max.,mg/L	50	956
Electrical Conductivity	2,500	16,441(@24.3 °C)
Total Dissolved Solids (T.D.S), mg/L	2,000	8,055
E. Coil Count (ECC), max., per 100mL	Absent	>300

Results for 2nd Quarter dated 24/01/2025		
Parameters	Regulatory Limit (NEMA 3rd Sch)	Measured Value (Ex-Lagoon 7)
Bio chemical Oxygen Demand	30	998
Chemical Oxygen Demand (C.O.D). Max.,mg/L	50	1285
Electrical Conductivity	2,500	23,920(@25.7 °C)
Total Dissolved Solids (T.D.S), mg/L	2,000	5170
Total Nitrogen (TN), max., mg/L	20	208.8
Total Phosphorous (TP), max., mg/L	30	99
E. Coil Count (ECC), max., per 100mL	Absent	TNTC*

The malfunctioning of critical wastewater treatment components has led to the discharge of effluent containing pollutant levels far above the legally permitted thresholds. This constitutes a significant environmental compliance issue and requires immediate corrective action to restore the WWTP to full operational capacity.

In the circumstances, the Management is in breach of the regulatory standards on effluent management.

15. Environmental Complaints and River Water Discoloration due to the Effluent Discharge

According to the National Environment Management Authority (NEMA) guidelines, companies are required to maintain a register of environmental pollution-related complaints, including records of the actions taken in response. Review of the Company's register revealed recurring complaints from various stakeholders, including: Company staff, NEMA officers, Effluent Treatment Plant (ETP) operator and Muhoroni residents. The nature of the complaints included:

i. Discoloration of the River Nyando, into which the Company discharges its treated effluent;

ii. Effluent overflow at various manholes on different occasions; and

iii. A reported incident of fish mortality in the River Nyando, believed to be linked to effluent discharge.

However, and even though the Company has taken some measures to address effluent overflow at the manholes, there is no documentary evidence to show action taken to resolve the repeated complaints about the river's discoloration.

In addition, review of the March 2025 monthly environmental and safety reports revealed that upon analysing effluent samples from Site II of the treatment plant, the colour of the effluent discharged into the river was confirmed as dark brown—substantiating the community and staff complaints regarding river discoloration This indicates a persistent and unresolved environmental issue that may further expose the Company to regulatory, reputational, and ecological risks.

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

16. Poor Workmanship in Construction of Classroom

A review of the contract files for the year 2024/2025, revealed that the Company entered into a contract agreement with a Company for the construction of one (1) classroom at a cost of Kshs.1,950,000 on 6 November, 2024 with a completion date of 1 January, 2025. The inspection and acceptance committee on 9 January, 2025 verified that the work had been done satisfactorily and recommended that the Contractor be cleared and paid his dues less retentions and taxes. However, during an audit site visit and inspection on 24 June, 2025, it was observed that at the entrance of the classroom the floor had holes, ceiling had water marks indicating that the iron sheets had leakages and walls had cracks indicating poor workmanship.

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

17. Accuracy and Accountability of Imprests

Review of the imprest records revealed an amount of Kshs.2,017,605 in respect of board expenses were not supported and the surrenders were incomplete contrary to Regulation 104(1) of the Public Finance Management (National Government) Regulations, 2015 which states that all receipts and payments voucher of public moneys shall be properly supported by pre-numbered receipt and payment vouchers and shall be supported by the appropriate authority and documentation.

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. Failure to Meet Audit Committee Meeting Threshold

Review of the board meeting minutes provided for audit review showed that the Audit and Risk Committee held two (2) meetings on 3 October, 2024 and 1 April, 2025 contrary to Section 5.2 of the Gazette Notice No. 40 on Frequency and Timings of Meetings which states that the audit committee should meet at least quarterly. It is therefore not clear if the Audit and Risk Committee effectively performed their role in the governance process by providing an independent expert assessment of the activities of top management, the quality of the risk management, financial reporting, financial management and internal audit, to the executive management.

In the circumstances, in the absence of inadequate review meetings by the Audit and Risk Committee, effective governance processes of the Company could not be confirmed.

2. Failure to Implement Internal Audit Recommendations

Review of the internal audit recommendations report reveals that most recommendations made by the internal auditor and audit committee on various issues that the Management needed to act on remained unresolved. As per the report tabled at the 54th Virtual/Physical meeting held on 1 April, 2025, thirty-nine resolutions were to be acted upon by the management, however only six (6) issues had been acted upon with thirty-three remaining unresolved matters as at the time of the audit in June, 2025 contrally to Section 162(2)(a), (b) and (c) of the Public Finance Management Act, 2012, states that an Accounting Officer shall ensure that the organizational structure of the internal audit unit facilitates the entity to accomplish its internal audit responsibilities and that the internal auditor with sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of internal audit reports and appropriate action to be taken on internal audit recommendations.

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

3. Review of Internal Audit Reports

Review of the internal audit reports deliberated on 3 October, 2024 in the Management processes and governance structures in Sales and Distribution Department revealed the following anomalies;

3.1. Fraudulent Activities in Sales Representatives Sales Oder Accounts

The Internal Audit Report revealed that the use of a cash sale manual receipt for both cash and credit sales had previously made the Company lose more than twenty million (Kshs.20,000,000) in fraudulent activities hence should be stopped immediately. Marketing staff should embrace the use of bank accounts and mpesa services (Customers to use Pay Bill services).

Further, the Report revealed journal entries were passed to the Company's sales representative accounts from customer's accounts without their knowledge despite having stopped working for the Company. These transactions increased debts owned by sales representatives. Journal entries were also passed in specific customers' accounts to reduce the debts owed to the company without justification.

3.2. Unauthorized Customers Credits through Journal Entries

The Internal Audit Report also revealed that a sales representative account based in South Rift Region show that on 1 August, 2022, the outstanding balance was Kshs.83,520. However, a review of the Sales Representative statements showed unjustified journal entries were passed to increase the sales representative account balance long after her termination on 26 July, 2022 as follows;

(a) A firm bought goods from the Company on 31 January, 2022 amounting to Kshs.672,000 through invoice number 16569 and by 28 July, 2022 Kshs.317,110 was pending as unpaid when the sales representative was terminated. The customer continued to trade with Company on credit basis and on 27 September, 2023 the balance was at Kshs.233,650. A journal entry number 450851 amounting to Kshs.242,100 was passed by the Finance Department to reduce the customer's account to a negative balance of Kshs.8,460. This entry increased the sales representative account (ACFC 003) to Kshs.444,630 form Kshs.202,520. As at 24 October, 2023 the Customer's account outstanding balance was Kshs.411,540 for goods given on credit. Further, the Management passed a journal entry number 450845 amounting to Kshs.107,688 in the same sales representative account reducing the account balance to Kshs.336,942.

(b) Further, review of ACFC 006, a sales representative account statements based in Central Region revealed that goods amounting to kshs.2,046,600 were given on credit to the sales representative between 26 January, 2022 to 28 June, 2022. However, as at 28 June, 2022 the account had reduced in unexplained circumstances to an outstanding balance of Kshs.668,970. Further, thirteen (13) months later, on 27 September, 2023 a journal entry number 450857 amounting to Kshs.205,400 was passed to reduce the sales representative balance to Kshs.462,970 which is outstanding to date.

In addition to this review of Internal audit reports, Management have not provided the Sales Representative's accounts and or Statements, Sales ledgers, Debtor's accounts/statements and ledgers, List of journal entries made during the year and Quarterly Reports up to and including 4th Quarter for audit review.

In the circumstances, in absence of effective internal controls on sales and distribution of the Company's products, the Company will continue to lose funds through irregular accounting of sales.

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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Conclusion

As required by the Companies Act, 2015, I report, based on my audit, that:

i. 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;

ii. The information given in the Directors' report on pages xix to xx is consistent with the financial statements; and

iii. The auditable part of the Directors' remuneration report on page xxvii has been properly prepared in accordance with the Companies Act, 2015

Basis for Conclusion

The Companies Act, 2015 requires that I report on the legal or regulatory requirements, or on performance information disclosed. These matters require expressing a separate opinion as to the Company's compliance with laws and regulations. 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 the Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) 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 Company'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 Company'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

09 December, 2025

APPENDICES

Appendix 1: Unresolved Prior Year Matters

	Audit Issue
1	Material Uncertainty Related to Going Concern
2	Unsupported Cost of Materials, Energy and Packing
3	Inaccuracies in Inventories
4	Trade Payables with Debit Balances
5	Long Outstanding Trade and Other Receivables
6	Budgetary Control and Performance
7	Irregular Payments for Goods before Delivery
8	Non-Submission of Annual ALMANAC
9	Irregular Recruitment
10	Unauthorized Posts in the Staff Establishment
11	Non-Compliance with one Third of Basic Pay Rule
12	Non-Compliance with the Law on Ethnic Composition
13	Irregular Engagement of Legal Consultants
14	Long Outstanding Trade and Other Payables
15	Failure to Pay Interest on Loan
16	Failure to Service Borrowings
17	Goods not Invoiced
18	Failure to Meet Audit Committee Meetings Threshold
19	Non-implementation of Internal Audit Recommendations