REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

KENYA AGRICULTURAL AND LIVESTOCK RESEARCH ORGANIZATION

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON KENYA AGRICULTURAL AND LIVESTOCK RESEARCH ORGANIZATION 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 Kenya Agricultural and Livestock Research Organization set out on pages 1 to 20, which comprise of the statement of financial position as at 30 June, 2025 and the statement of financial performance, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya Agricultural and Livestock Research Organization as at 30 June, 2025 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Kenya Agricultural and Livestock Research Act, 2013 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Long Outstanding Receivables from Exchange Transactions

The statement of financial position reflects receivable from exchange transactions balance of Kshs.212,424,000 which as disclosed in Note 22 to the financial statements includes amounts due from Kenya Seed Company, Bungoma Union, Mugama Co-op Union, rent due and other receivables of Kshs.19,945,000, Kshs.746,000 Kshs.4,400,000 and Kshs.22,623,000 respectively all totalling to Kshs.47,714,000 that have remained outstanding more than three years.

In the circumstances, the accuracy and recoverability of the receivables from exchange transactions balance of Kshs.212,424,000 could not be confirmed.

2. Long Outstanding Receivables from Non-Exchange Transactions

The statement of financial position reflects receivables from non-exchange transactions balance of Kshs.345,200,000 which includes commodity levy of Kshs.314,497,000 as disclosed in Note 23 to the financial statements. Included in the commodity levy are balances due from Nyambene Mills (in receivership), Coffee Board of Kenya and Kenya Planters Co-operative Union (KPCU) of Kshs.7,073,687, Kshs.23,445,000 and Kshs.124,496,000 respectively. These balances have been outstanding for more than four (4) years. Although Management has made a full provision of Kshs.124,496,000 in respect of KPCU debt and forwarded a claim to the receiver Manager of Nyambene Mills (in receivership), no progress has been reported towards recovery of this debt and provision made for the other long outstanding debts appears inadequate.

In the circumstances, the accuracy and recoverability of the receivables from non-exchange transactions balance of Kshs.345,200,000 could not be confirmed.

3. Property, Plant and Equipment

The statement of financial position reflects property plant and equipment balance of netbook value of Kshs.26,101,821,000 as disclosed in Note 27 to the financial statements. Review of related records revealed the following anomalies;

3.1 Failure to Disclose the Fair Value of Fully Depreciated Assets

Included in the balance for property, plant and equipment are fully depreciated assets with original cost/valuation of Kshs.2,537,675,728 that are still in use. The fully depreciated assets might indicate a possible material variance between the fair value and the carrying value of the assets. The continued use of fully depreciated assets without reassessment of their useful lives indicates that the entity's depreciation policy may not accurately reflect the economic life of assets.

3.2 Unresolved Land Matters

The statement of financial position reflects property, plant and equipment balance of Kshs.26,101,821,000 which includes Kshs.18,208,626,000 in respect of land as disclosed in Note 28 to the financial statements. Review of records revealed that Management had not resolved previous years land issues as detailed below:

i. As previously reported, land with a value of Kshs.400,000,000 and measuring 400 acres was allocated to the Kenya Agricultural Research Institute in 2011. However, Management did not provide for audit, ownership documents for the parcel of land.

ii. As previously reported, included in the property, plant and equipment balance of Kshs.24,106,637,000 (2022 - Kshs.24,123,928,000) as at 30 June, 2023 was an amount of Kshs.2,932,785,960 in respect of six (6) parcels of land owned by the former Kenya Agricultural Research Institute which did not have ownership documents.

iii. Further, part of the Organization's land and another parcel measuring approximately 100 hectares were illegally acquired by informal developers in the year 2000. Further, part of this land was used as a dumping site by a County Government and construction of a power station was also taking place on the same land.

iv. In January, 2011, some individuals invaded the Organization's land in Naivasha, claiming ownership. The Organization filed a case in court to have them evicted, and a ruling in favor of the Organization was made on 29 March, 2012, revoking their title. However, the informal settlers had not vacated the land.

v. As reported in the previous years, fifty (56) parcels of land all under the Sugar Research Institute did not have ownership documents.

vi. The property, plant and equipment balance exclude undetermined value of parcels of land measuring 99 hectares and 127 hectares, which the Coffee Research Institute used for farming. The titles to the parcels of land were in the name of the Coffee Board of Kenya (CBK) which has since merged to form the Agricultural Food Authority.

vii. The Agricultural Mechanization Services (AMS) - a department within the Ministry of Agriculture, Livestock, Fisheries and Co-operatives occupied a portion of the Organization's land and had set up its own buildings. The Management clarified that the value of the constructions/improvements by the AMS was not included in the assets balance, and AMS was devolved from the National Government to the County Government. The County Government had however, neither signed any lease agreement nor paid any rent to the Kenya Agricultural and Livestock Research Organization.

viii. The property, plant and equipment balance also exclude the value of twenty (20) acre piece of land developed by the Tea Research Institute with an estimated value of Kshs.8,430,634.

ix. The property, plant and equipment balance include an amount of Kshs.81,650,080, being the value of buildings allocated to the Kenya Plant Health Inspectorate Service in 1998.

x. The property, plant and equipment balance include the value of an office block completed in the year 2012/2013 at a cost of Kshs.663,772,203 for Sugar Research Institute. As previously reported, the valuation report amount was however, Kshs.447,992,751 resulting in an overstatement of Kshs.215,779,452. No explanation was provided on how the value of the new building dropped below the actual construction cost with such a high margin.

xi. As reported in the previous year, the Organization's residential building at Kisii Sub-Centre of Coffee Research Institute was taken over by the Kisii County Government with no compensation to the Organization.

xii. Included in the value of land balance as at 30 June, 2023 was an amount of Kshs.117,000,000 being the cost of land occupied by Coffee Research Institute. Although Management indicated that the title deed was misplaced, evidence of steps taken to replace the title deed was not provided.

xiii. KALRO owns 142.06 hectares which has a title deed but which has been encroached by informal settlers making it impossible for the Organization to utilize the land for the purposes of agricultural research.

xiv. Included in the balance of land of Kshs.18,208,626,000 is a beach plot valued at Kshs.56,734,160. However, the Organization did not have a title deed for the land. The Management explained that the land was illegally subdivided into five plots, but the Commissioner of Lands revoked the allotments. A private developer filed a suit in court to affirm ownership of the beach plots but the matter had not been determined as at 30 June, 2023 and ownership of the plots could not be confirmed.

xv. The balance also excluded the value of a parcel of land on which five (5) buildings are located in Kitale and staff houses belonging to the Non-Ruminant Centre in Kakamega. The houses were constructed on twenty (20) acres of land that were left out during allotment of the land to the Organization.

xvi. Further, included in the balance of land of Kshs.18,208,626,000 are 1,418 hectares of land where a National Beef Research Centre is located. Records held at the Organization indicated that in 1984 a farmer surrendered two hundred and thirty (230) acres of his land to the Government, and it was agreed that he would be compensated with an equivalent acreage of vacant land at the Beef Research Institute. The farmer was however allotted two hundred and seventy acres (270), an excess of forty (40) acres. Further, the farmer violated the conditions of the land exchange and occupied the developed part of the land leading to destruction of property belonging to KALRO. The said part of the land had since been subdivided into plots for sale to the public. In addition, records provided indicated that another farmer agreed to surrender three hundred and twenty (320) acres of his land in Nakuru but during exchange and transfer he irregularly acquired an extra one hundred and fifty-two (152) acres of KALRO's land. Additionally, informal settlers have been trying to encroach the land since year 2014. There is a high risk that the Organization may lose the disputed parts of its land.

xvii. The balance of land of Kshs.18,208,626,000 does not include the value of the parcels of land situated in Msabaha in Kilifi, Njoro in Nakuru, five (5) parcels of land in Limuru, Kiambu and a parcel of land in Alupe Sub-Centre, Busia.

xviii. Examination of various documents at Beef Research Institute in Lanet, Nakuru County revealed that informal settlers have been encroaching the land. There is therefore a high risk that the Organization may lose parts this land in Lanet. Further, the County Government of Kisii had taken over part of the Organization land meant for food Crop Research Institute Kisii. The County Government was constructing the Governor's residence in approximately two acres of the grabbed land while a cancer centre was illegally being constructed in another parcel estimated at one acre.

In the circumstances, the ownership, completeness and accuracy of land balance of Kshs.18,208,626,000 could not be confirmed.

3.3 Land Parcels Without Ownership Documents

Review of ownership records and supporting documents established that the organization does not have custody of title deeds or any formal ownership documents for the following parcels of land: -

i. Marimanti, Tharaka Nithi – 100 acres

ii. Igoji, Meru – 33 acres

iii. ICRC, Mwea – 17.34 hectares

iv. Kimbimbi, Mwea – acreage not established

3.4 Failure to Operationalize and Disclose the Tea Factory at the Tea Research Institute

Physical inspection conducted in June, 2025 revealed that among non-disclosed assets of the organization at the Tea Research Institute is a Tea Factory building that was constructed at the institute and completed in 2015. However, the facility had not been equipped or made operational as at the time of the audit.

Additionally, the building had not been recorded in the organization's fixed asset register, making it difficult to ascertain the total cost of construction and verify its proper capitalization in the organization's books of account.

3.5 Encroachment of Ithookwe Sub-Center

Review of the asset records revealed that land in Kyangithya, Tungulu was reserved for Ithookwe Sub-Station of Agriculture Research as per a search dated 11 October, 2006. A resolution was passed by the County Council of Kitui on 25 November, 2009 vide Min, EHSS/27/2009 and adopted by the ordinary full council meeting held on 27 November, 2009 as captured in minute number 31/2009(9) recommending the transfer of the said land of approximately 17.5Ha from County Council of Kitui to Kenya Agricultural Research Institute currently Kenya Agricultural and Livestock Research Organization. This was further communicated to the commissioner of lands on 19 January, 2011. However, there had been a dispute between the Research Organization and St. Charles Lwanga Secondary School dating back to 1982 on the same land which had not been resolved.

Out of the total land area of 17.5Ha, approximately 9.6Ha had been used by Kitui County for show ground. During the audit of the year 2024/2025 it was noted that the remaining 7.9 ha which were occupied by the Research Organization was under encroachment by the County Government of Kitui who started a construction of 10,000 seat stadium. There was no evidence to indicate that the research organization was involved in the decision to construct the stadium on the said land.

3.6 Encroachment of Kambi Mawe Sub-Centre Land

Review of the land documents for KALRO Kambi Mawe, a sub-center of Katumani in Machakos revealed that Makueni County Council had reserved 47.8 ha of land for agricultural trials for the center as per search dated 23 June, 2013. In the year 2018, the County Government of Makueni earmarked 25 ha of land allocated for the agricultural experiments to be utilized in construction of Agricultural Training Centre without approval of KALRO Management. On 14 May, 2023 the department of infrastructure, transport, public works, housing and energy requested for authority to construct access road to the Agricultural mechanization center which was not granted but the works were still done, hence invasion into KALRO premises.

On 26 May, 2025 the department of devolution, county administration, public service and special programme requested for authority to construct water tank tower through Thwake water project. However, the authorization was not granted but the works commenced on 20 June, 2025. Hence, land coverage of 37.35Ha reserved for KALRO trials has been encroached affecting the research activities of KALRO which is their core mandate.

In the circumstances, the ownership, accuracy and completeness of property plant and equipment balance of Kshs.26,101,821,000 could not be confirmed

4 Inconsistencies in Budget Performance and Presentation

The statement of comparison of budget and actual amounts reflects budgeted final payments of Kshs.6,509,000,000 and actual payments on comparable basis of Kshs.6,727,047,000 resulting to over-spending of Kshs.218,047,000 or 3%. Similarly, there was an overspending of Kshs.130,464,000 or 7% and Kshs.31,912,000 or 80% of budget in respect to use of goods and services and on contracted services respectively.

Management submitted for review a total expenditure budget of Kshs.6,650,600,000 including recurrent expenditure of Kshs.6,509,000,000 and development budget of Kshs.141,600,000 which was reduced to Kshs.5,020,117,844. The development expenditure budget was totally cut. Examination of asset movement schedule in Note 27 to the financial statement revealed additional assets of Kshs.1,413,602,000 on acquisition of fixed assets which includes revaluation of Kshs.1,187,150,000 and new acquisition of Kshs.226,000,000. However, the organization did not have a development budget it was therefore not clear how acquisition of property, plant and equipment was done.

In the circumstances, the accuracy of the statement of comparison of budget and actual amounts and the compliance with the budgetary provisions could not be confirmed

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Agricultural and Livestock Research Organization (KALRO) 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.

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 Information

The Directors are responsible for the Other Information set out on page vi to lvii which comprise of Key Organization Information and Management, The Board of Management, 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 entity 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.

Other Matter

Unresolved Prior Year Matters

In the prior years' audit reports, 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 audit of the Organization in 2024/2025 revealed that the following nine (9) issues remained unresolved:

No.	Financial Year	Audit Issue
1	2023/2024	Unaccounted for cash
2	2023/2024	Inventory-stock taking
3	2023/2024	Long outstanding receivables from exchange transactions
4	2023/2024	Long outstanding receivables from non-exchange transactions
5	2023/2024	Unresolved land matters
6	2023/2024	Employment of staff with disability
7	2023/2024	Insurance of motor vehicles
8	2023/2024	Staff establishment
9	2023/2024	Gender imbalance of board members

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. Non-Compliance with One-third Basic Rule

Examination of the Organization payroll for the month of June, revealed that twenty-one (21) employees were earning salaries below the recommended one-third of their basic salary. This was contrary to section 19(3) of the Employment Act ,2007 which states that all deductions made by the employer from the wages of his employee at any one time shall not exceed two-thirds of such wages or salaries. This may expose staff to pecuniary embarrassment.

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

2. Non-Compliance with the Law on Employment of Persons with Disability

Review of the staff biodata provided during the audit revealed that the staff with disability were found to be 1.9% (39 out of 2043) of the total staff. This is contrary to the required percentage of at least 5% of the threshold set out in the Persons with disabilities Act,2003 and Public Service Commission Human Resource Policies of May, 2016.

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

3. Non-Operationalization of the Milk Processing Plant at Dairy Research Institute

The statement of financial position and Note 27 of the financial statement reflect property plant and equipment net book value of Kshs.26,101,821,000. This includes work-in-progress amount of Kshs.43,393,000 out of Kshs.14,279,557 in respect to construction of a milk processing plant at Dairy Research Institute in Naivasha. Physical inspection carried out in the month of June, 2025 revealed that the plant had not been equipped or operationalized despite the construction works with respect to civil works being substantially complete. The processing plant is therefore depreciating with passage of time without being put to use. Further, the building was also not included in the Organization 's fixed asset register.

In the circumstance, the organization may not receive value for money from the project.

4. Non-compliance with Fiscal Responsibility Principles

The statement of financial performance reflects revenue from exchange transactions amount of kshs.1,085,141,000 and revenue from non-exchange transactions amount of Kshs.4,315,000,000 (Gok Recurrent) all totaling to Kshs.5,400,141,000. Management spent Kshs.4,281,565,000 on staff costs accounting for 79 % of the total percent of national government exchequer and A.I.A. The entity therefore contravened the requirements of regulation 26(a) of the Public Finance Management Regulation of 2015 which provides that National government's expenditure on the compensation of employees shall not exceed 35 percent of the national government's equitable share of the revenue raised nationally plus other revenue generated by the national government pursuant to Article 209(4) of the constitution.

In the circumstances, the entity was in breach of law and development projects may not be to be implemented.

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

Understaffing of Staff Establishment

Review of the staff establishment revealed that the entity had an in-post staffing of two thousand seven hundred and thirteen (2,713) against an approved establishment of three thousand six hundred and twelve (3612) officers, hence an understaffing by eight hundred and ninety-nine (899) officers or 25%.

In the circumstances, the organization may not achieve the strategic objectives due to insufficient human resources.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, risk Management and overall governance were operating effectively in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of the Management and Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal controls as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Organization'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 Organization'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