REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

KENYA MEAT COMMISSION

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON KENYA MEAT COMMISSION 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 Meat Commission set out on pages 1 to 50, 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 changes in equity, statement of cash flows, 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 the Kenya Meat Commission as at 30 June, 2025 and of its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards and comply with the Public Finance Management Act, 2012 and the Kenya Meat Commission Act, 2012.

Basis for Qualified Opinion

1. Fully Depreciated Assets

The statement of financial position reflects a net book value of Kshs.17,330,944,270 in respect of property, plant and equipment which, as disclosed in Note 14 to the financial statements, includes an amount of Kshs.25,354,640 in respect of fully depreciated motor vehicles. However, Management did not explain why the Commission had not revalued or reviewed the depreciation methods of the assets in conformity with Paragraph 31 and 61 of the International Standards of Accounting (IAS) 16 to reflect the correct balances in the financial statements given that the assets were still in use and generating revenue.

In the circumstances, the accuracy and fair valuation of the property, plant and equipment balance of Kshs.17,330,944,270 could not be confirmed.

2. Inaccurate Non-Current Liabilities

The statement of financial position reflects a balance of Kshs.372,392,911 in respect of domestic borrowings as disclosed in Note 21 to the financial statements. However, as reported in the previous year, records maintained by The National Treasury reflects an outstanding loan balance of Kshs.977,332,146 comprised of Kshs.940,241,100 and Kshs.37,091,046 in respect of outstanding loan principal and interest respectively. The resultant difference of Kshs.604,939,235 between the two sets of records was not explained.

Further, available information indicates that The National Treasury had in April, 2022 appointed a team to verify the Government loans to the Kenya Meat Commission (KMC). Following verification of the loans, KMC was instructed by The National Treasury to recognise in its books a total loan amount of Kshs.1,667,125,232 as 30 June, 2021. The Commission was also instructed to continue accruing interest and provide a repayment plan for settling the debt of Kshs.1,667,125,232 owed to The National Treasury. However, Management has to date not recognised the loan amount of Kshs.1,667,125,232 in its books or provided a repayment plan as required.

In the circumstances, the accuracy of the non-current liabilities balance of Kshs.372,392,911 could not be confirmed.

3. Unsupported Trade and Other Payables

The statement of financial position reflects a balance of Kshs.487,688,880 in respect of trade and other payables as disclosed in Note 22 to the financial statements. The balance includes an amount of Kshs.81,286,182 which was not supported with documents such as payment vouchers, invoices and registers. Further, review of pending payment vouchers for the 2024/2025 financial year revealed payables totaling Kshs.24,597,731 relating to supply of livestock and which were not included in the creditors' balance.

In the circumstances, the accuracy and completeness of trade and other payables balance of Kshs.487,688,880 could not be confirmed.

4. Long Outstanding Trade Receivables

The statement of financial position reflects a balance of Kshs.694,114,443 in respect of trade and other receivables which, as disclosed in Note 16 to the financial statements, includes trade receivables amounting to Kshs.627,748,130, out of which Kshs.552,433,121 is owed by various Government agencies and which have been outstanding for over 90 days without any documented efforts to collect the debts. Further, Note 16(b) reflects rental receivables balance of Kshs.19,374,047 relating to accumulated rental income from active tenants occupying the Commission's properties.

Further, review of receivable records covering the period 2012 to 2021 revealed long-outstanding balances totalling Kshs.126,637,289, which were either unsupported, disputed, or untraceable. In addition, the Commission does not have a Debt Management Policy aligned to IFRS 9 requirements, and no structured process exists for credit risk assessment, impairment provisioning, or regular receivables review.

In the circumstances, the accuracy and full recoverability of the outstanding receivables balance of Kshs.694,114,443 could not be confirmed.

5. Lack of Land Ownership Documents

The statement of financial position reflects a balance of Kshs.17,330,944,270 in respect of property, plant and equipment which as disclosed in Note 14 to the financial statements, includes a balance of Kshs.15,021,500,000 relating to freehold land. Review of land records, title deeds, and revaluation reports provided for audit confirmed that the Commission holds parcels of land across Machakos, Nairobi, Kajiado, Kwale, Mombasa, and Laikipia Counties, with original titles retained at The National Treasury. However, the three parcels of land in Machakos, Mombasa and Nairobi Counties had ongoing court cases and outstanding land rates amounting to Kshs.1,608,517,368. In addition, Leasehold properties in Kwale and Mombasa, issued in 1966 for 37 years, were reportedly extended to 50 years in 2011, but no formal documentation confirming the extensions was provided for audit.

In the circumstances, the accuracy and fair value of the property, plant and equipment balance of Kshs.17,330,944,270 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Meat Commission 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 final budgeted and actual on comparable basis revenue of Kshs.3,920,726,106 and Kshs.1,723,056,164 respectively, resulting to revenue an under-realization of Kshs.2,208,782,905 or 56% of the budget.

The under-realization affected the planned activities and may have impacted negatively on service delivery to the public.

2. Financial Performance

The statement of profit or loss and other comprehensive income reflects sales turnover of Kshs.1,642,805,432 compared to a turnover of Kshs.1,709,798,352 reported in 2022/2023 financial year resulting to a decline of Kshs.66,992,920 in sales. Similarly, the Commission made operating loss before tax of Kshs.588,803,648 compared to an operating loss before tax of Kshs.365,632,021 reported in 2023/2024 financial year Management attributed the decline to livestock supply challenges caused by delayed payments to suppliers leading to stock outs of meat and meat products. The decline was also attributed to delayed payments by key credit customers from key Government institutions who initially formed the biggest client portfolio.

In the circumstances, the continued accumulation of losses signifies persistent financial underperformance and sustainability challenges, casting doubt on the Commission's ability to operate profitably and achieve its financial objectives.

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

1. Unresolved Prior Year Matters

In the prior years' audit report, several issues were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. Review of the status during audit of the Commission in 2024/2025 revealed that the following seven (7) issues remained unresolved:

No.	Financial Year	Audit Issue
1	2023/2024	Unsupported cash and bank balances
2	2023/2024	Inaccurate non-current liabilities balance
3	2023/2024	Lack of land ownership documents
4	2023/2024	Long outstanding receivables
5	2023/2024	Financial performance
6	2023/2024	Long outstanding payables
7	2023/2024	Non-compliance with one-third of basic salary rule

2. Absence of Formal Equity Structure Documentation

The Commission, though operating as a State Corporation engaged in commercial activities, lacks a formal equity structure framework as required under International Financial Reporting Standards (IFRS). As provided in Section 9(1)(o) of the Kenya Meat Commission Act, the Commission has powers to issue shares, stock, debentures or debenture stock with the consent of the Cabinet Secretary. However, no share capital certificates or documentation exist to confirm the Government's ownership structure or percentage shareholding. A letter dated 21 April, 2025 referenced a Cabinet Memorandum directing the Ministry of Finance and the Attorney-General to establish a legal and institutional framework for equity capitalization. However, its implementation remains incomplete and hence the financial statements do not reflect proper equity classification or disclosure as required under IFRS. The absence of formal ownership documentation affects proper classification and presentation of equity in the financial statements.

In the circumstances, the absence of a formal equity structure and incomplete implementation of the Cabinet directive on equity capitalization have resulted in non-compliance with IFRS requirements and hence undermining the accuracy of ownership representation and the reliability of the Commission's financial reporting framework.

3. Underachievement of Livestock Procurement Performance Contract Targets

Review of livestock procurement against the set performance contract targets for FY 2024/2025 revealed significant underachievement across all livestock categories. Cattle procurement achieved only 40% (19,825 out of 49,574 target), with Quarter 4 recording the lowest performance at 18.25% attributed to delayed payments and demand fluctuations for fresh meat market. Goats procurement performed moderately at 77% (7,224 out of 9,351 target), with Quarter 4 at 58.5% due to low market for chevon meat. Sheep procurement was severely underachieved at only 10.1% (802 out of 7,939 target), with Quarter 3 recording the lowest performance at 5% due to consistently low demand for mutton. Despite persistent variances throughout the financial year, no corrective measures or reviews were observed to either adjust the targets to realistic levels or implement interventions to improve actual procurement.

In the circumstances, the significant underachievement of livestock procurement targets across all categories indicates weaknesses in planning, target setting, and performance monitoring.

4. Declining Livestock Purchases

Analysis of livestock procurement over the past three financial years revealed a significant and sustained decline in purchase volumes and values totalling Kshs.713,410,614, declining from Kshs.2,045,450,537 in 2022/2023 to Kshs.1,332,039,923 in 2024/2025 (representing a 35% decrease). The declining trend indicates that the Commission is operating below full capacity, negatively impacting the main production of the plant. The reduction in procurement is largely attributed to delayed payments, which discourage suppliers from committing to deliver cattle and related products. Notably, the payment policy had been revised from 72 hours to longer periods of up to 60 days, hence delaying payments to suppliers. This creates a direct operational challenge, as insufficient livestock supply limits production and, consequently, affects sales performance.

In the circumstances, the decline in livestock purchases indicates weak cash flow and procurement management, leading to reduced production, lower sales, and inefficient use of resources.

Other Information

The Management is responsible for the Other Information set out on page iii to xxxvi which comprise of Key Commission Information, The Board of Commissioners, Key Management Team, Fiduciary Management, Fiduciary Oversight Arrangements, Chairman's Statement, Report of the Managing Commissioner, Statement of Performance Against Predetermined Objectives, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Commissioners, and Statement of Commissioners' Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the Kenya Meat Commission 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 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. Long Outstanding Trade Payables

The statement of financial position reflects a balance of Kshs.487,688,880 under trade payables, which as disclosed in Note 22 to the financial statements, include a balance of Kshs.32,066,445 which has been outstanding for more than one (1) year. This was contrary to Section 53 (8) of the Public Procurement and Asset Disposal Act, 2015 which states that 'an Accounting Officer shall not commence any procurement proceedings until satisfied that sufficient funds to meet the obligations of the resulting contract are reflected in approved budget estimates.

Further, the trade and other payables balance includes pension funds by the employer's contributions of Kshs.83,038,545 that were outstanding and not remitted to the respective fund administration and which have been outstanding for three (3) years (since July, 2023). This was contrary to Regulation 23(2a) of the Public Finance Management (National Government) Regulations, 2015 which provides that in addition to the responsibilities of Accounting Officers provided for in the Act, an Accounting Officer designated under the Constitution, the Act or any other Act, shall comply with any tax, levy, duty, pension, commitments and audit commitments as may be provided for by legislation.

In addition, review of the Kenya Revenue Authority (KRA) iTax records in respect of the Commission revealed unreconciled statutory liabilities amounting to Kshs.115,270,946 in respect of income tax-company as at 30 June, 2025. The balance remains unpaid and continues to attract penalties and interest, with no evidence of reconciliation or engagement with KRA on settlement arrangements. This was contrary to Section 37(1) of the Income Tax Act (Cap. 470) which provides that an employer paying emoluments to an employee shall deduct tax therefrom, and shall, not later than the ninth day of the month following that in which the payment was made, remit that amount to the Commissioner.

In the circumstances, Management was in breach of the law and there is risk loss of public funds through litigations, interests and penalties.

2. Non-Compliance with Capacity Building Levy Requirements

During the year under review, the Commission made various procurements worth Kshs.249,111,018. However, the Commission did not deduct and remit to the Public Procurement Regulatory Authority the 0.03% capacity building levy as required. This was contrary to Paragraph 3(1) of the Public Procurement Capacity Building Levy Order, 2023 (The Levy Order, 2023) which requires all procuring entities to deduct and remit to the Authority a levy of 0.03% of the value of the signed contracts between the supplier and procuring entity exclusive of all applicable taxes.

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

3. Depleted Building Housing Generators and Electrical Control Panels

Physical verification revealed that the building housing the generators and electrical control panels was in a dilapidated condition. This was evidenced by depleted walls on the exterior and interior due to leakages and failed plumbing works, damp slabs with trapped moisture, worn-out floors resulting from poor workmanship and lack of maintenance, falling ceiling boards, missing window panes, and absence of gutters to collect rainwater. It was further noted that the Commission had not provided any budget line or inspection reports on the status of the building, and no inspection certificates from Public Works or Public Health were available to ascertain the fate of the building. This was contrary to Section 79 of the Public Finance Management Act, 2012 which requires public officers to ensure that adequate arrangements are made for proper use, custody, safeguarding, and maintenance of public property.

In the circumstances, the dilapidated state of the building indicates poor maintenance and asset management, exposing the Commission to safety and operational risks.

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. Non-Sequential Invoicing and Lack of Cancelled/Voided Invoice Controls

Audit review of the sales revenue system revealed that invoice numbers were not sequential as required for system-generated documents. Some 1,995 invoice numbers were missing and no explanation was provided for the anomaly. Further, the Commission did not maintain records for cancelled or voided invoices to verify the completeness of recorded transactions.

Lack of sequential invoice numbering and absence of controls over cancelled or voided invoices compromise the integrity and completeness of revenue records.

2. Inadequate Management and Utilization of Motor Vehicles

Physical verification and review of asset records revealed inefficient utilization and weak management of motor vehicles. Out of three (3) trailers procured in the year 2021, only one (1) is operational, while two remain idle due to the absence of trailer heads. The non-utilized trailers represent underused investment and tied-up capital, leading to potential financial loss and reduced transport efficiency. Further, eight (8) motor vehicles, including pickups, canters, and utility vehicles, have remained stalled since 2021–2023 without repair or maintenance. In addition, the Commission lacks a formal motor vehicle disposal policy to guide the identification, assessment, and disposal of obsolete or non-operational motor vehicles.

The inefficient utilization and poor management of motor vehicles reflect weak asset control, lack of maintenance planning, and absence of a disposal framework resulting in idle and underutilized assets, leading to financial inefficiencies and reduced operational effectiveness.

3. Inadequate Machinery Capacity Utilization and Maintenance Controls

Physical inspection of the production plant and review of documents provided for audit revealed that although an asset register lists all machines, it lacks critical details such as age, model, and make. No capacity verification tests have been conducted, making it impossible to confirm whether actual outputs meet original design specifications. Further, lack of original maintenance schedules and logs suggest machines may not be operating at sub-optimal settings, resulting in reduced outputs.

In the circumstances, the factory operates below capacity, with effective output averaging only 50% of design levels across major production lines including slaughter, cut beef, value addition, by-products, and canning. These gaps indicate inefficient utilization of machinery, lack of preventive maintenance controls, and potential underperformance of critical production assets.

4. Obsolete and Unserviceable Machinery Affecting Production Efficiency

Physical inspection and review of operational records revealed that several key machines across production lines are obsolete or unserviceable, significantly undermining production efficiency. Critical equipment such as the Soup Extract Line, Cryovac Vacuum Sealing Machine – Cut beef Section, Offal Canning Line, and Canning Line No. 2 were non-functional, resulting in lost production capacity and wasted raw materials.
The Soup Extract and Offal Canning Lines, designed to process by-products into marketable goods, remain idle, causing loss of potential revenue and underutilization of resources. Similarly, Canning Line No. 2, with a capacity of 10 tonnes per day, has been non-operational, leading to a production shortfall of approximately 250 tonnes monthly.

In addition, stainless steel tables in the Cut Beef and Boning Sections require mechanical upgrades, forcing staff to rely on manual handling of meat on conveyors which increases labour costs, slows processing, and reduces throughput.

In the circumstances, the absence of timely repair, replacement, and modernization of obsolete machinery has compromised production efficiency, increased operational costs, and limited the Commission's ability to meet the demand for its products.

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 Management and the Board of Commissioners

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 which are free from material misstatement, whether due to fraud or error, and for assessment of the effectiveness of the internal controls, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Commission'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 the 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 are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Board of Commissioners is responsible for overseeing the Commission'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 also 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

11 December, 2025