REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

KENYA SEED COMPANY LIMITED AND ITS SUBSIDIARIES

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON KENYA SEED COMPANY LIMITED AND ITS SUBSIDIARIES 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 Seed Company Limited and its Subsidiaries set out on pages 1 to 69, which comprise of the statement of financial position as at 30 June, 2025, and the statement of profit and loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya Seed Company Limited and its Subsidiaries as at 30 June, 2025 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracies in Property, Plant and Equipment.

The Group's statement of financial position reflects a property, plant and equipment balance of Kshs.9,040,719,000 as disclosed in Note 16 to the financial statements. However, the balance includes fully depreciated assets disclosed at historical cost balance of Kshs.145,208,003. No explanation has been provided as to why the assets have not been revalued yet they are in use.

In the circumstances, the accuracy and completeness of the reported property, plant and equipment balance of Kshs.9,040,719,000 could not be confirmed.

2. Unsupported Loan Capital to Subsidiaries

The Group' statement of financial position reflects loan capital to subsidiaries balance of Kshs.228,269,000 as disclosed in Note 23(a) to the financial statements. However, a supporting disbursement schedule that discloses the disbursements dates, loan identification numbers, reference numbers to the Board resolutions, the bank reference number, loan agreements or other formal documentation between the Company and its subsidiaries were not provided for audit verification.

In the circumstances, the accuracy and completeness of the loan capital to subsidiaries balance of Kshs.228,269,000 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Seed Company and its Subsidiaries 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 indicates that the Company received total revenue amount of Kshs.7,640,507,124 against the approved budget of Kshs.7,162,783,273 resulting in an over realization of Kshs.477,723,851 or 7% of the budget. Further, the statement reflects total expenses amounting to Kshs.2,878,545,138 against the actual receipts of Kshs.7,640,507,124 resulting in under-utilization of Kshs.4,761,961,986 or 62% of the actual receipts.

The under-utilization of the actual receipts may have affected the planned activities of the Company and affected service delivery to the public.

2. Unresolved Ownership and Governance Matters

The Group's statement of financial position reflects a share capital balance of Kshs.215,625,000 as disclosed in Note 26 to the financial statements representing issued and fully paid for 10,781,265 ordinary shares of Kshs.20 each. This balance does not include 3,370,000 ordinary shares worth Kshs.67,400,000 that were issued in the year ended 30 June, 2002 but revoked after the High Court of Kenya ruling of 6 April, 2006. These shares are currently a subject matter before the Kenyan Court of Appeal and the nominal share capital together with the premium on these shares amounting to Kshs.124,690,000 is classified under trade and other payables (Note 31 to the financial statements). Further, it was established that the case remained unresolved due to delayed finalization of the Deed of Settlement between Agricultural Development Corporation and the Company.

The case had not been determined as at 30 June, 2025.

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 effects 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 Information

The Directors are responsible for the Other Information set out on page iii to lxxi which comprise of Key Entity Information, Chairperson's Statement, Managing Director's Statement, 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 Group'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. Irregularities in Implementation of Maize Subsidy Programme

Review of records revealed that the Ministry of Agriculture issued a directive to the Company on 28 February, 2025, to supply maize seeds to farmers at a subsidized price of Kshs.210 per kilogram, down from the previously approved selling price of Kshs.300 per kilogram after proposing that the Company reduce the price of maize seeds to Kshs.260. The Ministry was to subsidize the difference of Kshs.50 per kilogram to bring the price down to Kshs.210. However, the following audit matters were observed:

i. The programme lacked clearly defined objectives and rationale, hindering its effectiveness.

ii. No criteria for identifying eligible beneficiaries were documented raising concerns regarding the equitable distribution of subsidies to smallholders and resource-poor farmers.

iii. No public awareness campaigns or training initiatives were conducted to inform farmers about the subsidy programme and best agricultural practices.

iv. The special Board meeting resolution mandated that maize seed distribution be conducted exclusively through the National Cereals and Produce Board (NCPB) and Kenya Farmers Association (KFA) stores. However, audit findings revealed that 7,579,702 kilograms of maize seed costing Kshs.1,591,737,440 was distributed through unauthorized channels including agents, stockists, and retailers.

v. The Company submitted a subsidy claim totalling Kshs.683,351,400 to the Ministry, for 13,667,028 kilograms of maize seeds supplied under the subsidy programme. However, as at the time of audit in July, 2025, the payment had not been made.

vi. The Ministry of Agriculture had a previous outstanding debt of Kshs.717,882,034 from a similar subsidy programme implemented in the 2013/2014 financial year.

In the circumstances, the unpaid subsidy claims of Kshs.683,351,400 under the current programme and the outstanding debt from previous subsidy programmes, amounting to Kshs.717,882,034 represented significant financial burden on the Company.

2. Non-Remittance of Public Procurement Capacity Building Levy

Review of payment records revealed that Management procured works, goods and services during the year. However, Management did not deduct and remit the capacity building levy. This was contrary to Section 3(1) of Legal Notice 206 of the Levy Order 2023 which states that there shall be paid a levy by a supplier on all procurement contracts signed between the supplier and a procuring entity, at the rate of zero point zero three per centum (0.03%) of the value of the signed contract, exclusive of applicable taxes.

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

3. Non-Compliance with Law on Staff Ethnic Composition

Review of the employment records revealed that the Company had a total of three hundred and fifty-eight (358) officers, out of whom two hundred and twenty-five (225) or approximately 63% were from the dominant community. Further, eighteen (18) employees were recruited during the year under review for various positions. However, thirteen (13) or about 72% of the employees were from the dominant community. This is contrary to Section 7(1) of the National Cohesion and Integration Act, 2008, which requires that no more than one-third of the staff in any public establishment shall be from the same ethnic community.

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

4. Non-Compliance with the Procurement Requirements

Review of the Company's approved procurement plan revealed that an amount of Kshs.287,337,507, representing approximately 14% of the budget, was reserved to enterprises owned by youth, women, persons living with disabilities and other disadvantaged groups. This reservation falls short of the statutory minimum requirement of 30% required by Section 53(6) of Public Procurement and Asset Disposal Act, 2015 which provides that all procurement and asset disposal planning shall reserve a minimum of thirty per cent of the budgetary allocations for enterprises owned by women, youth, persons with disabilities and other disadvantaged groups.

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

5. Long Outstanding Imprests

Review of documents revealed that imprest balance of Kshs.17,159,730 remained unrecovered for more than one (1) year with no evidence of recovery actions taken by Management. This was contrary to Regulation 93(5) of the Public Finance Management (National Government) Regulations, 2015, which requires that temporary imprests be surrendered within seven (7) working days and that the Accounting Officer take immediate recovery action, including salary deductions and interest, upon default.

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

6. Non-Submission of Monthly Bank Account Reconciliation Statements

The Group has seventeen (17) bank accounts out of which seven (7) are maintained and operated by the Company.However, the Company did not submit an annual list while the monthly bank reconciliation statements for each of the bank accounts were not submitted by 10th of the subsequent month to The National Treasury and the Auditor-General. This was contrary to Regulation 90(1) of the Public Finance Management Regulations, 2015, which requires the submission of monthly bank reconciliation statements by the 10th of the following month to The National Treasury and the Auditor-General.

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

7. Unclaimed Dividends

The Group statement of financial position reflects unclaimed dividends balance of Kshs.1,440,000 as disclosed in Note 32 to the financial statements. However, the dividends were not transferred to the Unclaimed Financial Assets Authority. This was contrary to Section 13(1) of the Unclaimed Financial Assets Act, 2011 which requires that assets presumed abandoned after the dormancy period be reported and subsequently paid, delivered, or held to the order of the Authority at the time of such reporting.

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 Conduct Annual Governance Audit

Review of documents and operations of the Company's Board of Directors revealed that the Company did not undertake annual governance audit. This was contrary to Paragraph 1.13 of Mwongozo (2015), which requires an annual governance audit by an accredited professional.

In the circumstances, the effectiveness of the Board in governance of the Company could not be confirmed.

2. Lack of Assets and Liabilities Management Controls

Review of the Company's organizational structure and its assets and liabilities management environment revealed several control deficiencies: Management had not established a dedicated asset and liability management unit or a corresponding standing committee. This was contrary to Paragraphs 4.8 (i & ii), of The National Treasury and Planning Policy which require the establishment of an asset and liability management unit and committee.

In the circumstances, existence of effective mechanism for management of assets and liabilities could not be confirmed.

3. Long Outstanding Dues from Subsidiaries

The Company's statement of financial position reflects amounts due from subsidiaries balance of Kshs.2,116,556,000 as disclosed in Note 23(b) to the financial statements. The balance comprised of dues from six (6) subsidiaries amounting to Kshs.2,306,781,000 and provision of doubtful debts amounting to Kshs.190,225,000. This was contrary to Paragraph 3.7 of the Kenya Seed Company Limited Credit Policy, 2022, which requires that all subsidiaries shall operate on a strict thirty (30) day credit period.

In the circumstances, the effectiveness of the Company's internal credit controls on debt management could not be confirmed.

4. Hazardous Roofing Using Asbestos Materials

Review of the asset records and physical inspection revealed building structures with asbestos tile roofing at the Headquarters in Kitale; stores in Endebess and stores at the Nakuru depot. This was contrary to Paragraph 40(a) and (b) of the Second Schedule to the Occupational Safety and Health Act, No. 15 of 2007 and the ban established by Legal Notice No. 121 of 2006 under the Environmental Management and Coordination Act (EMCA), 1999, which prohibited asbestos use and the classification of asbestos-related work as a cause of occupational cancer, mandating its removal to protect human health.

In the circumstances, the working environment exposes the staff and users to life-threatening health risks.

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 page xxxi is consistent with the financial statements; and

iii. The auditable part of the Directors' remuneration report on pages xl 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 Board of Directors

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

18 December, 2025