REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

KENYA SUGAR BOARD

FOR THE SIX (6) MOMTHS' PERIOD ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

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

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

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

REPORT OF THE AUDITOR-GENERAL ON KENYA SUGAR BOARD FOR THE SIX (6) MOMTHS' PERIOD 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 Sugar Board set out on pages 1 to 48, which comprise of the statement of financial position as at 30 June, 2025 and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the six(6) months period 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 Sugar Board as at 30 June, 2025 and of its financial performance and its cash flows for the Six (6) months then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis), Sugar Act, 2024 and comply with the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.2,287,851,000 as at 30 June, 2025. However, the following anomalies were noted;

1.1. Work in Progress

The property, plant and equipment balance include a work in progress balance of Kshs.721,937,000 as disclosed in Note 20 to the financial statements. Review of the ledgers provided for audit to support the amount for work in progress revealed that the work in progress consist of a Pilot Project of Kshs.279,095,735 and upgrade of Sony and Nzoia Sugar Factories of Kshs.442,841,740. However, documents provided for audit indicated that certificate of practical completion and handing over certificates for construction of both SONY and Nzoia Cane Testing Units (CTU) at a cost of Kshs.442,841,740 were issued on 15 and 16 November, 2021. The CTUs was therefore not supposed to be reflected as work in progress but as completed projects and depreciated in the financial years 2022/2023, 2023/2024 and 2024/2025. Further, the Pilot Projects were completed in early year2000 but are still being reflected as work in progress instead of completed buildings and were not depreciated to reflect the correct value.

1.2. Failure to Revalue of Fully Depreciated Assets

Review of the schedule provided to support the balance revealed that property plant and equipment whose acquisition amount totalled Kshs.349,132,561 had been depreciated to zero value by 30 June, 2025.

Management did not revalue the assets which are still being used by the Kenya Sugar Board.

In the circumstances, the accuracy and completeness of the property plant and equipment balance of Kshs.2,287,851,000 could not be confirmed.

2.0 Inaccuracies in the Financial Statements

2.1 Statement of Changes in Net Assets

The statement of changes in net assets reflect total transfers from Agriculture and Food Authority of balance of Kshs.5,236,976,000. However, the recalculated total was Kshs.5,240,955,000 resulting in a variance of Kshs.3,979,000. This variance affected the total balance as at 30 June, 2025 which reflected Kshs.3,317,448,000 while the recalculated balance was Kshs.3,321,427,000.

In the circumstances, the accuracy and completeness of the statement of changes in net assets could not be confirmed.

2.2 Statement of Comparison of Budget and Actual Amounts

The statement of comparison of budget and actual amounts reflects use of goods and services actual on comparative basis amount of Kshs.384,138,000 while the statement of financial performance reflects an amount of Kshs.282,061,000 resulting in an unreconciled variance of Kshs.100,077,000.

In the circumstances, the accuracy and completeness of the statement of comparison of budget and actual amounts could not be confirmed

3 Unsupported Amount in the Statement of Cashflows

The statement of cashflows reflects Kshs.76,788,000 as proceeds from investments under cash flows from financing activities. However, this amount was not supported with a disclosure note explaining the amount.

In the circumstances, the accuracy and completeness of the statement of cashflows could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Sugar Board 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 total receipts budget and actual amounts on comparable basis of Kshs.1,819,772,000 and Kshs.1,490,318,000 respectively resulting to an underfunding of Kshs.329,455,000 or 18% of the budget. Similarly, the statement reflects actual receipts amounts of Kshs.1,490,318,000 against actual expenditure of Kshs.1,412,926,000 resulting in an under absorption of Kshs.335,664,000 or 23% of total receipts.

Further,the statement of comparison of budget and actual amounts reflects a budget Kshs.100,000,000 in respect of regulatory levies respectively. However, the actual receipt was Kshs.19,934,000 resulting to under collection of revenue by Kshs.80,066,000 or 80% of the budget.

The underfunding and under absorption affected planned activities and may have impacted negatively on service delivery.

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

Other Information

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

In connection with my audit on the Kenya Sugar Board 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 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. Lack of Authority for Investment of Surplus Funds

The statement of financial performance reflects Kshs.1,490,318,000 in respect to revenue from exchange transactions. Included in the amount is six (6) months finance income of Kshs.6,500,000 as reflected in Note 9 to the financial statements. Documents provided for audit and verified revealed that the Corporation was operating five Bank accounts which are generating interests on the principal amounts in various banks accounts as tabulated below. Two of the bank accounts are on call deposit investment, while the other three accounts are on collateral deposit accounts.

However, the Corporation Management did not provide authorizing letters from National Treasury contrary to circular DGIPE/A/1/10 of the National treasury that gave the Corporation authority to invest any surplus funds.

Further, Management did not provide call certificates on the deposits maintained on call investments accounts indicating the interests' rates that will be used to accrue interests on daily basis.

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

2. Failure to Integrate Climate Change Action Plans into Board's Strategies and Operations

Review of Kenya Sugar Board financial statements on page xxix on environmental and sustainability reporting, Statement of comparison of budget and actual amounts for the year ended 30 June, 2025, and the draft strategic plan document revealed that the entity did not factor in Climate change policy framework in its strategic alignment and financing of climate related functions. Further, there was no budget allocation on climate change and a designated unit / department with adequate staff and financial resources and an appointed senior officer as head of the unit, to coordinate the mainstreaming of the climate change action plan and other climate change statutory functions within the corporation.

In the circumstances, the Board was in violation of the Integration Climate Change Action Plans law.

3. Failure to Pay full Lease Rental by Sugar Millers

Review of the signed lease agreements, cash book, ledger and bank statements provided for audit revealed that West Valley Sugar Company Limited was supposed to pay a total of Kshs.181,035,640 to Kenya Sugar Board being Kshs.80,080,000 for goodwill and Kshs.100,955,640 for lease rent of 2,523.891 hectares. However, by 30 June 2025, the company had paid a total of Kshs.160,000,000 in three tranches on 15 May 2025 thus leaving an unpaid balance of Kshs.21,035,640. Further, Busia Sugar Industries limited was expected to pay a total of Kshs.244,792,800 being Kshs.122,396,400 for goodwill and Kshs.122,396,400 for lease rent according to the lease agreement. However, by 30 June, 2025, the industry had paid a total of Kshs.239,600,000 thus leaving unpaid balance of Kshs.5,192,800. No proper explanation was provided as to why the unpaid balances from the two companies totalling to Kshs.26,228,440 had not been paid.

In the circumstances, value for money on the sugar company's rentals might not be achieved.

4. Inadequate Safeguarding of CTU Pilot Project Building at Nzoia Sugar Company

The audit verification of Nzoia Sugar factory Cane Testing Unit (CTU) revealed that the pilot building and other assets disclosed in the entity's asset register had significant non-existence and inadequate safeguarding of assets in the CTU Pilot Laboratory Building. During the audit, the assets inside the building such as furniture, and laboratory equipment, Computers and other ICT Equipment, were non-existent at the time of inspection. In addition, the building door was found unlocked, and the premises showed signs of vandalism, indicating lack of security and proper custody arrangements. Management failed to provide evidence of asset movement records, security measures, or status reports to support the existence and safeguarding of these assets.

In the circumstances, the effectiveness of the controls and safeguards on management of assets could not be confirmed.

5. Non-Preparation of Car and Mortgage Financial Statements

The statement of financial position reflects total Investment Mortgage of Kshs.126,837,000 as disclosed under staff Mortgage /Car loan to the financial statements. However, the Fund did not prepare financial statements for the scheme and submit them for audit as required by a Circular of 17 December, 2014 on Car Loan and Mortgage Schemes for State Officers and other Public Officers of the Government of Kenya.

In the circumstances, the Management is 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

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. The Constitution of the Board of Directors

During the year under review, the Board of Directors was not fully constituted. Out of the required twelve (12) Directors, only three (3) were in place including the Chairman, Board alternate member representing the Principal Secretary Ministry of Finance and Board member representing the Council of Governors.

In the circumstances, effectiveness of the adequate controls and governance oversight to deal with systemic weaknesses could not be confirmed.

2. Lack of Policy Documents

Review of governance and policy documents revealed that the entity did not have in place a risk management policy, a finance policy and procedures manual, creditors and debtors' policies. These key policy documents had not been formulated. The absence of these key policy documents may have exposed the entity to operational inefficiencies, financial mismanagement, and increased susceptibility to fraud, as there is no standardized framework to guide the financial management, credit control, and debt recovery processes.

In the circumstances, the effectiveness of the risk management strategies, which includes fraud prevention mechanism and a system of risk management and internal control that builds robust business operations could not be confirmed.

3. Lack of an Audit Committee

The Board does not have a constituted Board of Directors and an audit committee to provide independent oversight of the internal audit function, as required for good corporate governance practices. In the absence of these governance structures, the internal audit unit reports directly to the Chief Executive Officer (CEO) without an independent body to review its work, approve its plans, or follow up on implementation of recommendations. This compromises the independence and objectivity of the internal audit function as it undermines the principles of separation of powers between management and oversight, thereby limiting the extent to which its work can be relied upon for assurance purposes.

In the circumstances, the entity did not benefit from the oversight role of the Audit Committee function.

4. Weak Controls in the Information System

Review of the IT Internal Control Systems of the entity revealed the following anomalies:

i. The organization's structures have changed as stand-alone directorates reporting directly to the office of the CEO that are not integrated in the core system – ERP. ICT department which has the core mandate of ensuring smooth implementation of all systems is currently understaffed. The entity has only four (4) staff against the approved ICT departmental structure of six (6) staff.
ii. The entity's core system – Navision is an old version system which was acquired and installed in 2016. The system cannot generate a complete and reliable accounting reports for the end user like inventory reports. In this regard, it was observed that the accounting ledgers retrieved from the system lacks key details like names of the payees, payment voucher numbers and in some instances payment descriptions were missing. The entity should consider upgrading the

system to business central system which is the latest improved version of Navision system.

In the circumstances, the reliability of IT controls in place to assure the confidentiality, integrity and availability of information could not be confirmed.

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 Kenya Sugar Board'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 are responsible for overseeing the Kenya Sugar Board 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

11 December, 2025