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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

NATIONAL CEREALS AND PRODUCE BOARD

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

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

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OFFICE OF THE AUDITOR-GENERAL
Enhancing Accountability

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

REPORT OF THE AUDITOR-GENERAL ON NATIONAL CEREALS AND PRODUCE BOARD 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 National Cereals and Produce Board set out on pages 1 to 157, which comprise of the statement of financial position as at 30 June, 2025, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and 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 National Cereals and Produce Board 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 the National Cereals and Produce Board Act,1985 and comply with the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Undisclosed Commission on sale of subsidized fertilizer

The statement of profit or loss and other comprehensive income and Note 6 to financial statement reflects revenue amount of Kshs.37,127,110,000. However, the reported revenue excludes commission on sale of 8,270,328 bags of subsidized fertilizer where Management budgeted for commission of Kshs.170 for every bag of subsidized fertilizer sold translating to Kshs.1,405,955,460. The commission earned was not recognized in the financial statement.

In the circumstances, the accuracy and completeness of the revenue amount of Kshs.37,127,110,000 could not be confirmed.

2.0 Property Plant and Equipment

The statement of financial position and Note 17 to the financial statements reflects property, plant and equipment balance of Kshs.15,891,858,000. Review of supporting documents and the asset register revealed the following anomalies;

2.1 Failure to Revalue Fully Depreciated Assets

The property plant and equipment balance of Kshs.15,891,858,000 includes fully depreciated assets with a cost value of Kshs.724,687,560 which have not been revalued as at 30 June, 2025

In the circumstance, the accuracy and valuation of fully depreciated property, plant and equipment balance of Kshs.724,687,560 could not be confirmed.

2.2 Lack of Ownership Documents for Land

Included in the property, plant and equipment balance of Kshs.15,891,858,000 is land with a Net book value of Kshs.5,393,601,770 which includes thirty (30) parcels of lands whose ownership documents were not provided for audit.

2.3 Land Encroachment-Kericho Depot

Physical verification of NCPB land located in Kericho revealed that the land had been encroached by a private developer. Further, documentation provided for audit revealed that three corporate tenants occupying the parcel of land had cumulative outstanding rents amounting to Kshs.2,817,560 due to termination of tenancy with effect from 30 June, 2025 and efforts to reach the said tenants had gone futile.

In the circumstances, the Board is at risk of losing the encroached land and the recoverability of the rent arrears may not be guaranteed.

2.4 Theft of Motor Cycle and Accident of Motor Vehicle

Included in the property, plant and equipment balance of Kshs.15,891,858,000 is motor vehicles and motor cycles with a net book value of Kshs.13,400,442. Analysis of asset register revealed that a motor cycle got stolen on 15 August, 2024 and Madison general insurance had put a claim of KShs.43,790 as amount insured which had not been settled as at 30 June, 2025. Further, a motor vehicle had been involved in accident on 3 February, 2025 and the total loss was Kshs.2,050,000. However, insurance has not yet compensated for the loss as at 30 June, 2025.

In the circumstances, the accuracy and completeness of the property, plant and equipment of Kshs.15,891,858,000 could not be confirmed.

3.0 Trade and other receivables

The statement of financial position and Note 20 to the financial statements reflects trade and other receivables balance of Kshs.14,101,567,092. The following issues were noted

3.1 Unsupported Long Outstanding Trade Receivables

Included in trade and other receivables balance of Kshs.14,101,567,092 is trade receivables balance of Kshs.1,830,157,581 out of which Kshs.1,129,824,168 have been outstanding for more than 120 days. Although a cumulative provision for doubtful receivables of Kshs.1,010,052,893 has been recognized in the financial statements, the recoverability of these debts could not be confirmed due to the absence of records and evidence of recovery efforts.

In addition, gross trade and other receivables balance includes Kshs.112,932,107 relating to staff debtors, out of which Kshs.105,322,512 has been outstanding for over one hundred twenty (120) days in respect of cash losses, imprests, other losses, and stock shortages. A provision of Kshs.95,048,963 has been provided on staff debtors. However, the basis of the provision was not explained or provided for audit review.

3.2. Unsupported Government Debtors

Included in other receivables balance of Kshs.14,101,567,092 is Government debtors amount of Kshs.12,318,674,378. Included is Government Debtors new agency account of Kshs.614,410,047 which is net of provision for bad and doubtful debts of Kshs.1,492,687,217 However, the basis of this provision has not been explained.

In addition, Government Debtors -MOA Fertilizer Kshs.11,704,264,331 remained outstanding as at 30 June, 2025. No evidence was provided to show how the Government was to clear the balance.

In the circumstances, the completeness and recoverability of trade and other receivables could not be confirmed.

4. Unsupported Long Outstanding Trade and Other Payables

The statement of financial position and Note 29 to the financial statements reflects trade and other payables of Kshs.21,048,709,942. Included in this amount is trade payables balance of Kshs.13,085,119,551 which relates to GOK subsidy programme which the government has not settled. In addition, trade payables amounting to Kshs.4,475,729,739 has remained outstanding for more one year. Further, included in the trade and other payables are GOK on fertilizer sales, GOK on past market intervention, Government agency programme and Payments due to GOK on SGR maize sales of Kshs.2,824,564,733, Kshs.174,063,028, Kshs.143,195,039 and Kshs.3,935,310,222 respectively. Engagement with Management revealed that these payables relate to transactions with the line Ministry dating back in 1994/1995. However, evidence to ascertain the authenticity of these transactions were not provided for audit review.

In the circumstances, the accuracy and completeness of trade and other payables of Kshs.21,048,709,942 could not be confirmed.

5. Undisclosed Material Uncertainty Related to Going Concern

The statement of financial position reflects total current assets balance of Kshs.18,945,898,706 against total current liabilities of Kshs.22,013,475,530 resulting in a negative working capital of Kshs.3,067,576,824 (Kshs.3,116,094,519 for financial year 2023/2024). Further, the Board made a loss of Kshs.726,211,285 (2023/2024 loss of Kshs.992,328,737)

The National Cereals Board has remained in negative working capital over the years and Management has indicated that when the Government will settle the outstanding debt, the negative working capital position will be cleared. The government has not honored its fertilizer Debt in time. There is a threat on the entity's going concern and the financial statements have been prepared on a going concern basis assuming continued support from the Government and other stakeholders.

In the circumstances, the Company continued ability to continue to sustain its services could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Cereals and Produce 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

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.3,092,774,542 and Kshs.1,574,482,460 respectively, resulting in underfunding of Kshs.1,518,292,082 or 49% of the budget. Similarly, the Board spent Kshs.3,065,547,303 against the actual receipts of Kshs.1,574,482,460 resulting in over absorption of Kshs.726,211,285.

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

2. Tax Payable

The statement of financial position and Note 31 to the financial statements reflects tax payable amount of Kshs.964,765,588 in respect to value added tax arrears payable to Kenya Revenue Authority (KRA) on provision of agencies services to the government. Included in this amount is Kshs.410,092,367 tax that has remained outstanding since 2012. The PS-MOALF wrote to KRA on 22 March, 2016 proposing a repayment plan for the principal VAT arrears as approved by Strategic Food Reserve (SFR) Board. However, vide their letter dated 6 April, 2016, KRA wrote indicating that the payment plan had been rejected indicating that the full settlement should be within a period of twelve months and threatened to effect recovery action. The National Assembly Departmental Committee on Agriculture Livestock and Cooperatives seized the matter to find an amicable solution. This amount continues to attract penalties and interest that have not been assessed and incorporated in the financial statements.

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 and Material Uncertainty Related to Going Concern section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

1. Non-Integration of Business Central 365 System with Mezzanine System

Engagements with National Cereals and Produce Board (NCPB) Senior Management and the IT department established that NCPB recently migrated from Microsoft Dynamics NAV to Dynamics 365 Business Central to enhance operational efficiency.

However, the new Business Central 365 system has not been integrated with the Mezzanine System at the Ministry of Agriculture used for fertilizer redemption. As a result, staff are forced to manually transfer data from the Mezzanine System into Business Central 365.

In the circumstances, there is significant risks of errors and continued reliance on inefficient manual processes

2. Contingent Liabilities

The Board has disclosed contingent liability amount of Kshs 469,605,720 as disclosed at Note 34 to the financial statements. However, the note does not provide (a) a description of the nature of each class of contingent liability, (b) an indication of the uncertainties about the amount or timing of any outflow, and (c) the possibility of any reimbursement as required by IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

In the circumstances, we could not asses the nature, potential timing and magnitude of the risk the Board is exposed to.

3. Unresolved Prior Year Audit Matters

In the audit report of the previous year, several issues were raised under Report on the Financial Statements, Emphasis of Matter and Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management has not resolved the issues or given any explanation for failure to resolve them as at 30 June, 2025 as shown below;

1. Unaccounted for Inventories
2. Bank and Cash Balances
3. Unsatisfactory Matters in Trade Debtors and Pre-payment
4. Unsupported Medical Advances
5. Non-compliance with Debt and Credit Policy
6. Lack of Ownership Documents for Land
7. Lack of Motor Vehicles Ownership Documents
8. Encroachment on the Board's Property
9. Creditors due to GoK on Strategic Grain Reserve (SGR) Maize Sales
10. Contingent Liabilities
11. Budgetary Control and Performance
12. Material Uncertainty Relating to Going Concern
13. Variance between Approved Staff Establishment and Actual Posts
14. Irregular Payments of Acting Allowances
15. Irregular Payment of Special Duty Allowance
16. Cost of Sales – Purchases
17. Supply of Sub-Standard Fertilizer by a Non-Existent Supplier
18. Substandard Distribution of NPK: 10:26:10 Fertilizer
19. Procurement of UREA (46%N)
20. Fertilizers and Cereals That were not Delivered to the Depots
21. Seized Fertilizers
22. Fertilizers That were Replaced for Farmers

23. Supply, Installation and Commissioning Color Sorter for NCPB Rice Mill
24. Supply for installation and commissioning of Pulses Cleaning Machine at GCP Depot
25. Loss of Stock Held in the NCPB Stores
26. Physical Dispatch Stock Variance between Mombasa, SGR terminal and Maisha Minerals
27. Dryers delivered but Not in Use
28. Mobile Driers - Lack of Proper Documentation
29. Fixed Driers and Silos – Inefficient Management of Asset
30. Status of Various NCDP Depot Stations
31. Lack of Gender Diversity on the Board of Directors
32. Failure to Maintain Fixed Asset Register and Untagged Assets
33. Non-Operationalization of National Food Reserve and National Trading Divisions
34. Asbestos Materials
35. Obsolete Items
36. Non-Compliance with the Establishment of Board Committees
37. Lack of Gender Diversity on the Board of Directors
38. Non-execution of Governance Audit
39. Incomplete Assets Register
40. Dilapidated Buildings and Stores at the Depots
41. Lack of Documented and Approved Procedures Policy / Manual for Agency Contracts and Agreements

Other Information

The Management is responsible for the Other Information set out on page v to xlii which comprise of Key Entity Information, The Board of Directors, Key Management Team, Fiduciary Management, Fiduciary Oversight Arrangements, Chairman's Statement, Report of the Managing Director, Statement of Performance Against Predetermined Objectives, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Directors and 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 Board'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. Staff Cost

The statement of profit or loss and other comprehensive income and Note 12 to the financial statement reflect administration costs amount of Kshs3,034,666,051. Included in this amount is staff costs amount of Kshs.1,252,364,000. Review of records revealed the following anomalies;

1.1 Irregular Payment of Acting Allowance

An analysis of National Cereals and Produce Board's payroll revealed that Twenty-Five (25) staff members were paid acting allowances for more than 6 months which is contrary to Section C 14(1) of the Human Resources Policies and Procedure Manual for Public Service, 2016

In the circumstances, Management is in breach of the provisions of Human Resource, Policies and Procedures Manual for Public Services, 2016.

1.2 Irregular Payment of Special Duty Allowance

An analysis of National Cereals and Produce Board's payroll revealed that Two (2) staff members were paid special duty allowances for more than 6 months which is contrary to Section C 15(4) of the Human Resources Policies and Procedure Manual for Public Service, 2016.

In the circumstances, Management is in breach of the provisions of Human Resource, Policies and Procedures Manual for Public Services, 2016.

1.3 Understaffing of Staff Establishment

An analysis of the approved staff establishment and the current staff list revealed that the Board has an approved establishment of 1,140 posts but only 746 employees in post. This represents a staffing shortfall of 394 posts (35%), which is contrary to Section 2.2(4) and (5) of the National Cereals and Produce Board Human Resource Policies and Procedures Manual (June 2019), which require the Board to maintain adequate staffing levels and fill vacancies expeditiously.

In the circumstances, Management is in breach of the provisions of its Human Resource, Policies and Procedures Manual

1.4 Employees Earning Net Salary Less than One Third of Basic Pay

Examination of the payroll for the year under review established that 99 staff members were paid a net salary of less than one third of their basic salaries after statutory deductions in contravention of Section 19(3) of the Employment Act, 2007, which expressly prohibits an employer from deducting any amount that would cause an employee's net pay to fall below one-third of his or her basic salary.
In the circumstances, Management was in breach of the law.

2.0 Non-Compliance with Affirmative action on Gender, regional distribution and People Living with Disabilities.

2.1 Employment of Person's Living with Disabilities (PWDs)

A review of the employment records at the Cereals and Produce Board revealed that, out of the total work force of 746 employees, only Twelve (12) or 1.6% are persons living with disabilities. This falls far below the constitutional threshold stipulated in article 54(2) of the constitution of Kenya, 2010 that requires that at least five percent of the members of the public in elective and appointive bodies are persons with disabilities.
In the circumstances, Management has failed to realize the rights of persons with disabilities in employment as mandated by the Constitution.

3.0 Cost of Sales - Purchases

The statement of profit or loss and other comprehensive income and Note 7 to the financial statements reflects cost of sales amount of Kshs.35,552,627,540. Included in this amount is purchases amounting to Kshs.32,439,448,004. Review of procurement records revealed the following anomalies;

3.1 Irregular Procurement of Goods, Works and Services from Non-Prequalified Suppliers

During the financial year under review, the National Cereals and Produce Board expended a total of Kshs.128,621,817 on the procurement of goods, works and services from various suppliers. The expenditures were supported by the approved procurement plan and contract agreements duly executed between the Board and the respective suppliers. However, the suppliers engaged for these transactions were not in the Board's register of prequalified suppliers. In addition, there was no correspondence or approval on record showing that the Board had applied for and been granted permission by the head of another procuring entity to utilise that entity's list of prequalified suppliers, as allowed under Section 71(3) of the Public Procurement and Asset Disposal Act, 2015.

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

3.2 Procurement of Fertilizers Outside Approved Procurement Plan and Budget

A review of Local Purchase Orders issued for fertilizer as at 21 May, 2025 revealed that the National Cereals and Produce Board procured a total of ten million, two hundred and twenty-nine thousand, two hundred (10,229,200) bags of fertilizer. This quantity substantially exceeded the Board's own approved procurement plan and budget of seven million, three hundred thousand (7,300,000) bags. In addition, the Ministry of Agriculture and Livestock Development had, through two separate letters (ref: MOA/LCD/9/41 dated 21 August 2024 and ref: MOA/LCD/9/41 dated 26 November 2024), authorized a combined total of only eight million, four hundred thousand (8,400,000) bags comprising four million, nine hundred thousand (4,900,000) bags and three million, five hundred thousand (3,500,000) bags respectively for the long and short rains seasons resulting in procurement of (2,929,200) bags above its own approved plan and budget, and one million, eight hundred and twenty-nine thousand, two hundred (1,829,200) bags above the quantity expressly authorized by the parent Ministry. Management was not able to provide any evidence showing the source of funds used to finance the excess bags.

It was further noted that the Ministry of Agriculture repeatedly varied the required quantities during the course of the financial year. However, no documentation was provided to demonstrate that these variations were supported by a proper needs assessment, analysis of historical fertilizer uptake, current stock levels, or verified farmer demand data.

In the circumstances, Management was in contravention of the Public Finance Management Act,2012.

3.3 Non-performance of Various Fertilizer Suppliers' Contrary to Contract Agreement

A review of the fertilizer performance report as at 21 May, 2025 established that several suppliers awarded contracts for the supply of various types of fertilizer failed to deliver the contracted quantities within the timelines stipulated in their respective contract agreements.

This non-performance and delayed delivery seriously disrupted the timely distribution of subsidized fertilizer to farmers during critical planting seasons.

4.0 Long Outstanding Legal Cases

The statement of profit or loss and other comprehensive income and Note 12 to the financial statement reflect administration costs amount of Kshs.3,034,666,051. Included in this amount is legal and other professional fees of Kshs.20,127,344. Review of the supporting documents revealed that the Board had fifteen (15) ongoing court cases some dating back to twenty (20) years while some are still pending payment.

In the circumstances, the Board will continue to be vulnerable to risks relating to the cases.

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 Governance Audit

The Statement of Financial Performance and Note 12 to the financial statements reflects total administration costs of Kshs. 3,301,604,811. Included in this amount is directors' emoluments amounting to Kshs. 16,058,153. However, during the year under review, the Board of Directors did not conduct a governance audit contrary to the requirements of the Mwongozo Code of Governance for State Corporations, issued through Presidential Executive Order No. 7 of 25 March 2015 which requires the Board, in consultation with the State Corporations Advisory Committee (SCAC), to initiate an annual governance audit of the entity. The audit must be performed by a member of the Institute of Certified Public Secretaries of Kenya (ICPSK) and should, among other areas, evaluate the governance practices of the organisation.

In the circumstances, Management was in breach of the Mwongozo Code of Governance.

2. Employee Expenditure in Excess of Fiscal Responsibility

The statement of profit or loss and other comprehensive income and Note 12 to the financial statement reflects Administration cost amount of Kshs.3,034,666,051. included in this amount is staff costs of Kshs.1,252,364,000 which represent 51.5% of the total revenue of Kshs.2,432,042,499, this exceeds 35% limit set under regulation 26(1) of the Public Finance Management 2015, Regulations which establishes key fiscal responsibility principles for national government entities, including the requirement to limit employee compensation expenditure to a maximum of 35% of total revenue

In the circumstances. Management was in breach of fiscal responsibility principles

3. Failure to Operationalize the National Strategic Reserves (NSR) and National Trading Division (NTD)

Three years after the gazettement of the National Cereal and Produce Board (National Strategic Reserves) Regulations, 2023, the Board has failed to operationalize National Strategic Reserves (NSR) and National Trading Division (NTD) through funding. failure to provide funding has directly undermined Key Result Area (KRA) 2; Management of National Strategic Reserves.

In the circumstances, Management was in breach of the Regulations

4. Engagement of Tenants with Expired Lease Agreements

The statement of profit or loss and other comprehensive income and Note 10 to the financial statement reflects other income of Kshs.705,460,087. Included in this amount rental charges of Kshs.466,523,042. Review of tenancy records and lease agreements revealed that National Cereals and Produce Board continued to maintain tenancy arrangements with tenants whose lease agreements had expired.

In the circumstances, Management exposed itself to disputes over occupancy rights, and inability to enforce tenancy terms

5. Irregular Board Committees Composition and Functionality.

The statement of profit or loss and other comprehensive income and Note 12 to the financial statements reflects administration costs amount of Kshs 3,034,666,051. Included in this amount is directors' remuneration amounting to Kshs 16,058,153. Review of the composition and function of the Board of Directors revealed that three of the four Board sub-committees,the Finance and Procurement Oversight Committee, the Operations, Business Development and Strategic Planning Committee, and the Human Resources and Legal Affairs Committee operated without approved charters while Audit, Risk and Compliance Committee, had a charter which dates back to September 2016.in addition, each of the four committees was composed of four members, exceeding the maximum of three members being one-third of the full Board of nine as prescribed by Circular Ref. No. OP/CAB.9/1A of 11 March 2020 (Section B(4)), which states that the number of members in any committee should not exceed one-third of the full Board to avoid committees functioning as parallel full Boards.

Further, although the Board approved its calendar for the 2024/2025 financial year on 30 July 2024 vide Minute 1814/2024 of the 232nd Full Board meeting, no evidence was provided to confirm that the approved almanac had been submitted to SCAC through the parent Ministry by the mandatory deadline of 30 June of the preceding year.

In the circumstances, Management was in breach of the governance directives contained in Circular Ref. No. OP/CAB.9/1A of 11 March 2020, thereby weakening oversight, accountability, and the overall governance framework of the National Cereals and Produce Board.

6. Hazardous Asbestos Roofing Materials Still in Use

An audit inspection of National Cereals and Produce Board depots for the financial year 2024/2025 revealed that residential houses at Kericho, Kitale, Nakuru, Kiganjo and Eldoret depots are still roofed with asbestos. This is contrary to Chapter 1 of The National Guidelines on Safe Management and Disposal of Asbestos which classifies Asbestos as highly hazardous material with extremely fine fibres and can remain suspended in air for hours hence possess health risks.

In the circumstances, Management failed to comply with national guidelines on the management and phasing out of asbestos materials

7. Loss of stocks and Assets as a result of vandalism at NCPB Maua Depot

During field verification and stock take activities at NCPB Maua Depot, it was established that violent public demonstrations on 25 June, 2025 resulted to looting and destruction of fertilizer and other commodity stocks, ICT infrastructure, cash, physical infrastructure, and technical/minor assets as listed below;

i. Looting of 7,354 bags of subsidy fertilizer and 633 bags of commercial fertilizer from the main stores.
ii. Theft of 70 assorted packages of green grams and rice, 25 dunnages, and 2 tarpaulins.
iii. Cash losses amounting to Kshs.47,868, which included unbanked funds and unpaid vouchers. Cash referred to was a debit note to the cashier attached to Maua Depot.
iv. Arson and Vandalism of key buildings including the Administration Block, Sentry Box, and sections of the perimeter fence.
v. Destruction and loss of ICT equipment, furniture, firefighting tools, and other technical/minor assets critical to operations.

8. Expired Third Party stocks at NCPB Nakuru Depot

During physical verification of stores at the Nakuru Depot, it was established that 694 bags of assorted beans,60 bags of maize,1,080 bags of Chinese rice and 29 cartons of cooking oil of expired stocks belonging to the Ministry of Special Programmes remained in storage. These stocks had been earmarked for disposal in order to free up warehouse space and mitigate the risk of pest infestation.However, as at the date of the audit in June,2025, none of the expired stocks had been destroyed or removed, and they continued to occupy valuable storage space

The continued retention of these expired stocks contravenes proper stock management practices, exposes the Board to unnecessary storage costs and health risks from infestation, and restricts the availability of warehouse capacity for operational needs

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 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 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 is responsible for overseeing the Board'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

17 December, 2025