REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON NEW KENYA CO-OPERATIVE CREAMERIES (NKCC) LIMITED 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 New Kenya Co-operative Creameries (NKCC) Limited set out on pages 1 to 52, which comprise of the statement of financial position as at 30 June, 2025 and statement of Profit and Loss and 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 do present fairly, in all material respects, the financial position of New Kenya Co-operative Creameries (NKCC) Limited 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 (IFRS) and comply with the Cooperative societies Act, 2003 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Lack of Ownership Documents

The statement of financial position reflects balances of Kshs.307,500,000 and Kshs.3,232,227,671 in respect to freehold land and leasehold land respectively, as disclosed in Notes 15 and 16 to the financial statements. However, as previously reported, the ownership documents for land measuring four (4) acres donated to the Company by Igento Farmers' Cooperative Society for the establishment of a milk processing plant in Igembe Central, Meru County were not provided for audit.

Further, the value of four (4) other land parcels was not disclosed in the financial statements, while another seventeen (17) disputed land parcels and which had not been valued were registered in the names of third parties. The legal status of the said properties could not be determined.

In addition, as previously reported, out of 32.94 acres of the parcel on which the Miritini milk processing factory is located, a five (5) acre parcel of land has been encroached by informal settlers, some of whom have already built residential and other structures. As a result, ownership of the occupied parcels of land by the Company as well as those registered in the names of third parties is at risk.

In the circumstances, the valuation and ownership of freehold and leasehold land balances of Kshs.307,500,000 and Kshs.3,232,227,671 respectively could not be confirmed.

2. Trade and Other Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.1,415,776,326 as disclosed in Note 19(a) to the financial statements. However, review of documents relating to trade receivables revealed that the balance includes trade receivables of Kshs.710,853,970 out of which Kshs.224,592,161 has been outstanding for more than 120 days. Further, the balance includes VAT recoverable of Kshs.791,475,902 which relates to VAT claims which have not been settled by the KRA.

In addition, the staff receivables balance of Kshs.3,269,863 has been outstanding for two (2) years.

In the circumstances, the recoverability, accuracy and completeness of trade and other receivables balance of Kshs.1,415,776,326 could not be confirmed.

3. Unsupported Payment to Exchequer

Review of IFMIS accounts on development expenditure for State Department for Cooperatives revealed that an exchequer amount of Kshs.300,000,000 was paid back to the exchequer account on 14 September, 2024. Management explained that the New KCC received funding of Kshs.600,000,000 on 29 May 2024 under Article 223 of the Constitution to cater for effects of 2023-2024 El-Nino. However, during supplementary budget, Parliament approved/regularized allocation of Kshs.300,000,000 resulting to excess funds to New KCC of Kshs.300,000,000 which was recovered from New KCC budget of 2024-2025.

The Management has however recognized the entire Kshs.600,000 in the milk mop up reserve yet the whole amount was not approved/regularized by the Parliament.

Additionally, the Constitution is silent on action to be taken on funds disbursed under Article 223 of the Constitution and regularization not done by the Parliament, hence the justification of refund of Kshs.300,000,000 was not provided for review.

In the circumstances, the regularity and propriety of the payment to exchequer of Kshs.300,000,000 could not be confirmed.

4. Unsupported Milk Mop Up Reserve/Fund

The statement of changes in equity reflects raw milk grant amount of Kshs.1,500,000,000 and Kshs.2,400,000,000 received in 2023-2024 and 2024-2025 respectively both totalling Kshs.3,900,000,000. The statement reflects raw milk grant utilized of Kshs.730,753,000 leaving the balance of Kshs.3,169,247,000 as an unutilized grant as at 30 June, 2025. However, payment records provided for audit, shows that all the funds received by the Company had been fully paid to farmers for milk delivered to various Company plants which implies that the entire reserves needed to have been utilized. have been utilized. Further, the statement of financial position reflects cash and cash equivalent balance of Kshs.228,520,546. In addition, the Company had a bank overdraft balance of Kshs.476,607,338 implying a gross negative cash book balance of Kshs.248,086,792 and therefore no evidence of asset representing the reported reserve.

In the circumstances, the accuracy and validity of milk mop up reserve/fund of Kshs.3,169,247,000 could not be confirmed.

5. Unsupported Utilization of Raw Milk Grant

The statement of changes in equity reflects raw milk grant amount of Kshs.1,500,000,000 and Kshs.2,400,000,000 received in 2023-2024 and 2024-2025 respectively both totalling Kshs.3,900,000,000. Out of the total amount, Kshs.730,753,000 has been processed as utilization of reserves during the year. However, the supporting documents on how the utilization amount was arrived at were not satisfactorily explained.

In the circumstances, the accuracy and validity of raw milk grant utilized amount of Kshs.730,753,000 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of New Kenya Co-operative Creameries (NKCC) Limited 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.

Material Uncertainty Related to Going Concern

The statement of profit and loss and other comprehensive income indicates that the Company recorded a loss before tax of Kshs.974,664,863. Further, the Company's current liabilities exceeded the current assets by Kshs.859,881,060, an indication of negative working capital. In addition, the statement of profit or loss and other comprehensive income reflects finance costs of Kshs.369,486,337 which includes interest expenses on loans and bank overdrafts of Kshs.270,831,338 and Kshs.97,488,562 respectively as disclosed in Note 8 to the financial statements. It is evident that the Company heavily relied on bank loans and overdrafts during the year under review.

These events or conditions, indicate that a material uncertainty exists that cast significant doubt on the Company's ability to continue as a going concern.

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.8,955,612,445 and Kshs.7,617,607,202 respectively resulting in an under-realization of Kshs.1,338,005,243 or 15% of the budget. However, the Creameries spent an amount of Kshs.9,076,201,074 against actual receipts of Kshs.7,617,907,202 resulting in an over-utilization of Kshs.1,458,293,872 or 19% of actual revenue.

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

2. Long Outstanding Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.3,976,121,748 as disclosed in Note 29 to the financial statements. However, included in this balance is Kshs.3,243,123,217 which was overdue for over 120 days. Failure to settle the debts as and when they fall due may attract interest hence affect the operations of the entity if the suppliers stop supplies due to non-payment of debts when they fall due.

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

Other matter

Unresolved Prior Year Issues

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Emphasis of Matter, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. The issues as detailed in Appendix I remain unresolved as Parliament has not deliberated on the same.

Other Information

The Management are responsible for the Other Information set out on page ii to xxxii which comprise of Key Entity Information and Management, The Board of Directors, Management Team, Chairman's Statement, Report of the Managing Director, 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 Company'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. Irregular Write off of Trade and Other Receivables

The statement of financial position and as disclosed in Note 19 of the financial statements reflects net trade and other receivables balance of Kshs.1,415,776,326 which excludes provision for bad and doubtful receivable amount of Kshs.374,616,872. Further, the net balance of Kshs.263,562,292. However, no approval for write from The National Treasury was provided for review. This was contrary to Section 69 (1) of Public Finance Management Act, 2012 which states that an accounting officer for a national government entity may write off any loss not exceeding a prescribed amount, and in circumstances prescribed by regulations for the purposes of this section.

In the circumstances, the Institute was in breach of the regulation.

2. Long Outstanding Capital Work-in-Progress

The statement of financial position reflects property plant and equipment balance of Kshs.5,135,653,446 which includes capital work in progress balance of Kshs.37,756,902 as disclosed in Note13 to the financial statements which relates to three (3) contracts for construction works at Kericho sales depot which were all initiated in 2021. Review of the contract documents revealed that the projects were to be completed within one year from the date of site handover. However, the projects are not yet to be completed, four (4) years since inception.

In the circumstances, the value for money of capital work in progress amount of Kshs.37,756,902 could not be confirmed.

3. Non-compliance with 1/3 Rule on Basic Salary Pay

Review of the payrolls data revealed that whereas the company has a total of one thousand four hundred and eighty-six (1,486) members of staff, five hundred and seventy (570) staff members had committed their salaries above the 2/3 of their basic salary. This is contrary to Paragraph C.1(3) of the Human Resource Policies and Procedures Manual for the Public Service, 2016 which states that Public Officers shall not over-commit their salaries beyond two-thirds (2/3) of their basic salaries and Heads of Human Resource Units should ensure compliance.

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

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standards require that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements comply in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the effects of the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

Failure to Conduct a Governance Audit

During the year under review, the Board of directors did not subject the Company to an annual governance audit. This was contrary to the guidelines of Mwongozo Code of Conduct clause 1.13 that requires the Board, in consultations with the Oversight Office, ensure that it subjects the organization to an annual governance audit by a member regulated by the Institute of Certified Public Secretaries of Kenya (ICPSK) and accredited for that purpose.

In the circumstances, the effectiveness of internal controls, risk management and governance 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.

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. Information given in the Directors' report on pages xiv is consistent with the financial statements; and

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

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 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 Corporation'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 Corporation'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 for 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

Appendix I

Unresolved Prior Year Matters

No	Observation
	Basis for Qualified Opinion
1	Lack of Ownership Documents and Valuation
2	Non revaluation of Assets
3	Trade and Other Receivables
4	Non-Compliance with International Accounting Standards 20 - Accounting for Government Grants
5	Material Uncertainty Related to Going Concern
	Emphasis of Matter
6	Budgetary Control and Performance
7	Long Outstanding Trade and Other Payables
8	Related Party Balance
	Report on Lawfulness and Effectiveness in Use of Public Resources
9	Lack of Feasibility Study in Construction of Nyambene Depot
	Report on Effectiveness of Internal Controls, Risk Management and Governance
10	Non-Compliance with Human Resource Policy
11	Staff Over-Establishment