REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

NYAYO TEA ZONES DEVELOPMENT CORPORATION

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON NYAYO TEA ZONES DEVELOPMENT CORPORATION 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 Nyayo Tea Zones Development Corporation set out on pages 1 to 25, which comprise of the consolidated statement of financial position as at 30 June, 2025 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated 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 Nyayo Tea Zones Development Corporation 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 Nyayo Tea Zones Development Corporation Order of 2002 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Inaccuracies in the Financial Statements

The consolidated statement of cashflows reflects effect of exchange loss on cash and cash equivalents of Kshs.9,335,469 as disclosed in Notes 2(c) and 5 to the financial statements. However, the amount excludes Gatitu Tea Factory exchange loss of Kshs.201,759.

In the circumstances, the accuracy of the consolidated cash and cash equivalents balance of Kshs.9,335,469 could not be confirmed.

2.0 Trade and Other Receivables

2.1 Long Outstanding Receivables

The statement of financial position reflects trade and other receivables totalling Kshs.624,221,914 as disclosed in Note 11 to the financial statements. Included in the balance is Kshs.1,385,500 and Kshs.16,195,428 respectively owed by Emrok Tea Factory and Elgon Tea and Coffee which have been outstanding for more than one (1) year. However, Management did not provide measures put in place to recover the outstanding debts.

In the circumstances, the accuracy, completeness and full recoverability of long outstanding debts could not be confirmed.

2.2 Unsupported Trade and Other Receivables

Included in the trade and other receivables balance of Kshs.624,221,914 are insurance claims of Kshs.1,330,819 which have been outstanding since the year 2017. Further, temporary imprest receivables totalling Kshs.2,774,783 had not been surrendered. No explanation was provided as to why the amount was not surrendered or recovered from the salaries of imprest holder during the year under review.

In the circumstances, the accuracy, completeness and fair statement of the trade receivable could not be confirmed.

3.0 Property, Plant and Equipment

The consolidated statement of financial position reflects property, plant and equipment netbook value of Kshs.2,048,336,199 as disclosed in Note 8 to the financial statements. Review of the assets register revealed the following anomalies:

3.1 Inaccuracies in Property, Plant and Equipment

The property, plant and equipment netbook value of Kshs.2,048,336,199 as disclosed in the consolidated statement of financial position differs with the value of Kshs.1,766,503,500 as reflected in the assets register resulting to unreconciled variance of Kshs.281,832,700.

In the circumstances, the accuracy and completeness of property, plant and equipment balance of Kshs.2,048,336,199 could not be confirmed.

3.2 Unsupported Value of Land and Buildings

Included in the property, plant and equipment balance is Kshs.279,862,960 and Kshs.22,360,526 in respect to building and land respectively. However, the amount was not supported by valuation report that separated land and building since land and building had been accounted at a net book value of Kshs.316,318,132 in the previous year.

In the circumstances, the accuracy and completeness of property, plant and equipment balance of Kshs.2,048,336,200 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Nyayo Tea Zones Development Corporation 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 for the year ended 30 June, 2025 reflects budgeted final revenue of Kshs.2,552,325,433 and actual revenue on comparable basis of Kshs.2,288,134,594 resulting in underfunding of Kshs.264,190,839 or approximately 10% of the budget. Similarly, the statement reflects budgeted expenditure of Kshs.2,530,579,529 and actual expenditure of Kshs.2,558,604,476 resulting to over absorption of Kshs.28,024,947.

In addition, the statement of comparison of budget and actual amounts reflects final budgeted expenditure of Kshs.6,815,220, Kshs.42,395,839 and Kshs.59,699,504 in respect to printing and stationery, finance cost and amortization respectively while the actual on comparable basis was Kshs.7,506,604, Kshs.51,936,287 and

Kshs.108,233,217 resulting in unapproved expenditure of Kshs.691,380, Kshs.202,337,327 and Kshs.48,533,712 respectively.

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

2. Long Outstanding Creditors

The consolidated statement of financial position reflects trade creditors balance of Kshs.517,114,784 as disclosed in Note 15 to the financial statements. However, review of the supporting ledger revealed that creditors totalling Kshs.167,489,780 have remained outstanding for more than one year, with some dating back to the year 2017.

In the circumstances, the ability of the Corporation to meet its financial obligations when they fall due is doubtful.

My opinion is not modified in respect of these matters.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the effect of the matters described in the Basis for Qualified Opinion, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

1. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, 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.

1. Land without title deeds
2. Encroached Land
3. Ownership of Biological Assets.
4. Non-Compliance with one Third Basic Salary Rule.
5. Nyayo Tea Zones Loan Balances

2. Loss of Revenue Through Reclamation of Land Containing Tea Bushes

Review of records provided for audit revealed that the County Government of Tharaka Nithi uprooted 3,221 tea bushes in Meru South Zone to pave way for opening of Kirach - Kiamuriuki - Gitogoto (G4884) road without consultation with the Management of Nyayo Tea Zones Development Corporation. Further, the Department of Agriculture, Livestock and Fisheries of Tharaka Nithi County did valuation of the 3,221 tea bushes that were uprooted and came up with compensation amount of Kshs.2,000 per tea bush totalling Kshs.4,251,720 vide valuation report Ref: MOA/SCAO/MSD/SIU/CROPO/12/VOLII/327 dated 29 August, 2023. However, the County Government through a letter to NTZDC Ref: TNC/CS/FIN/VOL.I/27 dated 7 June, 2024 did not commit to pay the compensation arguing that the tea bushes were on road reserve.

In the circumstances, the Corporation is likely to lose revenue totalling Kshs.4,251,720 as compensation from the County Government of Tharaka Nithi.

Other Information

The Board Management is responsible for the Other Information set out on pages iii to xxix which comprise of 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 Corporation'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. Procurement of Monofilament Bags

The statement of profit or loss and other comprehensive income reflects cost of sales totalling Kshs.1,247,406,802 which includes cost of production of Kshs.612,840,891 as disclosed in Note 2(b) to the financial statements. Included in the amount is cost of farm input of Kshs.122,636,484 which further includes Kshs.17,377,589 for supply and delivery of 19,400 bags of Monofilament Green Leaf bags. Review of payment voucher number 006781 revealed that the Corporation procured 19,400 Green leaf UV hygienic monofilament bags (102cm*97cm) at a rate of Kshs.895.752 totalling Kshs.17,377,588.80

vide Local Purchase No.3107 dated 6 October, 2024. The bags were delivered on 8 October, 2024 and taken on charge in the stores the same day vide Counter receipt Voucher Number 0342. However, the Inspection and Acceptance Committee minutes showed that the bags were inspected and accepted on 25 October, 2024 casting doubt as to whether the bags were received in the quantities and quality ordered.

In addition, review of the procurement records revealed that the supplier did not provide performance security as required by Section 135 Sub-Section 1 of the Public Procurement and Asset Disposal Regulations, 2020.

In the circumstances, value for money could be confirmed.

2. Supply and Delivery of Weeding Chemicals

The consolidated statement of profit or loss and other comprehensive income reflects cost of sales totalling Kshs.1,247,406,802 which includes cost of production of Kshs.612,840,891 as disclosed in Note 2(b) to the financial statements. Included in the balance is cost of farm input of Kshs.122,636,484 which further includes Kshs.8,079,100 for weeding chemicals -Glyphosate. The Corporation awarded the supply and delivery of 13,600 litres of weeding chemicals - Glyphosate 480 s/l at a unit cost of Kshs.865 on 6 October, 2023 at a contract value of Kshs.11,764,000 for a period of one (1) year from the signing of the contract.

Review of records revealed that 9,340 litres of weeding chemical with a total cost of Kshs.8,079,100 were delivered on 6 August, 2024 and taken on charge in the stores records on the same day. However, the Inspection and Acceptance Committee minutes showed that the chemicals were inspected and accepted on 11 October, 2024 which was two (2) months after delivery of the chemicals by the Inspection and Acceptance Committee.

In the circumstances, value for money could be confirmed.

3. Lack of a Valid Contract for Green Leaf Sales

The consolidated statement of profit and loss and other comprehensive income reflects revenue amount of Kshs.1,848,088,996 as disclosed in Note 2(a) to the financial statements. Included in the amount is Kshs.1,160,213,791 in respect to green leaf sales which comprises of Kshs.22,964,047 delivered to Sisibo factory. Review of the contract documents revealed that the Corporation entered into a contract agreement with Sisibo Tea Factory Limited on 7 February, 2018 to deliver green leaf to the Factory at a cost of Kshs.32 for a period of two (2) years. The Factory Management agreed to be making payments on the 5th day of every month following the month of delivery of green leaf.

However, the Factory had accrued debt totalling Kshs.12,023,834 from February, 2020 to September, 2024 without a valid contract since the contract expired in February, 2020. Further, the Corporation continued to deliver green leaf totalling Kshs.125,960,964 and payment of Kshs.103,656,272 was made by the Factory to Nyayo Tea Zones Development Corporation during the period leaving a debt of Kshs.22,304,692.

In the circumstances, transactions undertaken outside the contract provisions may render the contract unenforceable or expose the entity to disputes and litigation.

4. Non-Compliance with Law on Ethnic Composition

Review of employees bio data of the Corporation for the year under review revealed that out of the total five hundred and eighty-six (586) employees of the Nyayo Tea Zones Development Corporation, three hundred and one (301) staff or approximately 51% of the total number are from one ethnic community contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that, "all public offices shall seek to represent the diversity of the people of Kenya in employment of staff and that no public Institution shall have more than one third of its staff establishment from the same ethnic community".

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. The Constitution of the Board of Directors

During the period under review, the Board was not fully constituted. The Board was composed of seven (7) appointed Board Members and two (2) Board members representing The National Treasury and the parent Ministry. However, the representatives from the Attorney General's Office (State Law Office) and Inspectorate of State Corporations did not attend the meetings as directed by Executive Order number EOP/CAB.26/4A VOL.VI/(9) issued on the 5th March, 2025 that every Board is constituted of at least four statutory representatives as standing members of the Board. The mandatory members include representatives from The National Treasury, the Attorney General's Office (State Law Office), the Inspectorate of State Corporations and relevant line Ministries.

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

2. Weak Controls in the Information System

Review of the IT Internal Control Systems of the entity revealed that the entity's core system – Navision is an old version system which was acquired and installed in the year 2017. However, the system cannot operate manufacturing module as well as generate complete and reliable accounting reports for the end user, accounting ledgers retrieved from the system lacks key details such as names of the payee and payment voucher numbers. The entity should consider upgrading the system to Business Central System which is the latest improved version of Navision system.

Further, the Organization has Strategy and Planning Division and Corporate Communications as key stand-alone departments reporting directly to the office of the Chief Executive Officer that are not integrated in the core system. The entity should embrace digitization and integration of ICT in its core operations across all departments and key divisions to support Organization's core functions. This may include but not limited to embracing a system that can monitor the performance of the Organization's various departments and zones, capturing progress of all developmental projects being undertaken by the entity for purposes of tracking progress and easy access by stakeholders and retrieval of all key data which should be centrally done and managed by the ICT department. In addition, the entity lacked an approved Disaster Recovery Plan to provide guidance in cases of data loss.

In the circumstances, the effectiveness of the IT internal controls systems is compromised and the entity's operations are at risk of being affected in case of a disaster.

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 the Board of Directors

The 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 the 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, the Management is responsible for assessing the Corporation ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management is aware of the intention to cease operations.

The 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, the 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 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 ISSAI 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

19 December, 2025