REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

THE TEA BOARD OF KENYA

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON THE TEA BOARD OF KENYA 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.

An Unmodified Opinion is issued when the Auditor-General concludes that 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

Opinion

I have audited the accompanying financial statements of Tea Board of Kenya set out on pages 1 to 57, 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 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, the financial statements present fairly, in all material respects, the financial position of Tea Board of Kenya as at 30 June, 2025 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards Accrual Basis and comply with the Tea Act, 2020 and the Public Finance Management Act, 2012

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Tea Board of Kenya 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 opinion.

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. There were no key audit matters to report in the year under review.

Other Matter

Unresolved Prior Year Matters

In the prior years' audit reports, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Report on Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance, respectively. Review of the status during audit of the Board in 2024/2025 revealed that the following matters remained unresolved.

	Financial Year	Audit Issue
1	2023/2024	Lack of Tea Act Regulations
2	2023/2024	Compensation of Employees.
3	2023/2024	Non-Compliance with Law on Ethnic Composition.
4	2023/2024	Non-Compliance with the One Third of Basic Salary Rule.
5	2023/2024	Failure to Prepare of Car Loan and Mortgage Financial Statements
6	2023/2024	Failure to Conduct Governance Audit
7	2023/2024	Irregular Composition of Board Committees
8	2023/2024	Board Involvement in the Management of the Entity Operations
9	2023/2024	Staff Under Establishment

Other Information

The Directors are responsible for the Other Information set out on page v to lxvii which comprise of Key Entity Information and Management, The Board of Directors, Management Team, Chairman's Statement, Report of the Chief Executive Officer, Statement of Performance Against Predetermined Objectives 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 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. Lack of Tea Act Regulations

As reported previously, the Tea Board of Kenya is a State Corporation in the Ministry of Agriculture and Livestock Development established by Tea Act No. 23 of 2020 to develop, regulate and promote tea sub-sector. However, as at 30 June, 2025, several regulations had not yet been enacted to operationalize the Tea Act, 2020. Core functions that require regulations for implementation are listed in the table below:

Section of the Act	Functions Needing Regulations
21(2)	Registration of Small-Scale Tea Growers and Medium Scale Tea Growers
23(2)	Registration Of Large-Scale Tea Growers

Section of the Act	Functions Needing Regulations
24	Issuance of Tea Grower Certificates
25(3)	Licensing of Manufacturers
28(3)	Registration of Warehouse Operator
29(3)	Registration of Tea Packers.
33(4)	Registration of Management Agents
35(3)	Registration of Tea Auction Organizers
37(3)	Registration of Commercial Green leaf transporters
38(3)	Registration of commercial Tea Nurseries
48(2)	Tea Value Addition
49(2)	Appointment of Crop Inspectors
53(4)	Establishment of Tea Levy

In circumstances, the Board risks having no legal framework for carrying out its core functions as stipulated in the Tea Act, 2020.

2. Compensation of Employees

As reported previously, the statement of financial performance reflects expenditure on employee cost of Kshs.177,928,000 as disclosed in Note 13 to the financial statements. The following issues were observed;

2.1 Irregular Payment of Acting and Special Duty Allowance

Included in this expenditure is acting allowances of Kshs.936,786 and special duty allowances of Kshs.532,889, all totalling Kshs.1,469,675. Review of the relevant personal files revealed that these allowances were irregularly paid to ten (10) officers who had served in acting and special duty roles for periods exceeding twelve months, extending from the prior financial year. This was contrary to Section C.15 of the Human Resource Policies and Procedures Manual for the Public Service.

In the circumstances, Management was in breach of the human resources policies and procedures.

2.2 Non-Compliance with Law on Ethnic Diversity

Review of employee records revealed that the entity had fifty-six (56) employees, of whom twenty-four (24), representing 43 percent, belonged to the same ethnic community. This is contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which requires 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 circumstances, the Board was in breach of the law.

3. Failure to Deduct and File Monthly Returns on Procurement Capacity Building Levy

During the financial year under review, the Board entered into contracts with various suppliers for works, goods delivery, and service provision. However, the Board did not deduct and remit to the Public Procurement Regulatory Authority (PPRA) Levy, at the rate of zero point zero three per centum (0.03%) of the value of the signed contract, exclusive of applicable taxes from the contract value at the time of making payments for such contracts. Further, the Board did not submit returns, contrary to Section 9 of the Public Procurement Capacity Building Levy Order, 2023 which requires procuring entities to maintain monthly records in Form SL.1 and submit the returns through the Public Procurement Information Portal.

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

4. Failure to Prepare Car Loan and Mortgage Financial Statements

As reported previously, the statement of financial position reflects securities and deposits balance of Kshs.807,843,889 as disclosed in Note 25 to the financial statements. Included in the amount are staff mortgage and staff car loan of Kshs.673,143,262 and Kshs.50,872,527, respectively. However, the financial statements for the car and mortgage were not prepared by the Board, contrary to Section 164(3) of the Public Finance Management Act, 2012, which requires the accounting officer to prepare financial statements in a form that complies with the relevant accounting standards prescribed and published by the Public Accounting Standards Board.

In the circumstances, Management was in breach of the law

5. Failure to Establish a Tea Fund

Section 54 of the Tea Act, 2020 requires the Board to establish and manage a Tea Fund comprising monies appropriated by the National Assembly, tea levy collections, approved sources, and grants or donations, to be applied for income or price stabilization and research and development. However, the audit revealed that the Tea Fund had not been set up as at the time of the review.

In the circumstances, Management was in breach of Section 54 of the Tea Act, 2020.

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 THE EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015 and based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on the 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. Understaffing of the Board

Review of the payroll data and the Board's approved staff establishment revealed that the Board had a staff establishment of one hundred positions (100). However, only fifty-six (56) were filled, leaving a shortage of forty-four (44) staff members. This lack of adequate staffing hampers effective discharging of the mandate of the Board. This is contrary to Section 16. (1) of the Tea Act, 2020 which requires that the Board may employ such officers, agents and staff as are necessary for the proper and efficient discharge of the functions of the Board under this Act and upon such terms and conditions of service as the Board may determine.

Inadequate staffing may affect the Board's ability to effectively deliver on its mandate, leading to service delivery gaps.

2. Failure to Conduct Governance Audit

As reported previously, the entity's Board did not initiate governance audit during the year under review. This was contrary to the requirement of Mwongozo code of conduct for state Corporations issued under presidential Executive Order No.7 dated 25 March,2015 ,under item1.13 which states that the Board of Directors in consultations with the State Corporation Advisory Committee is required to initiate governance audit of the company through an institute of certified public secretaries of Kenya (ICPSK) member and that the governance audit should among other areas cover the governance practices of the organization.

In the circumstances, the adequacy of governance oversight could not be assured, as the Board failed to initiate the mandatory governance audit required under the Mwongozo Code of Conduct for State Corporations.

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 Boards' 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 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